CHAPTR -I
INTRODUCTION

1.1 Background of the Study

The world has become a small village due to globalization, Liberalization and Privatization. This topic is not beyond from it. Nepal is developing country having the population of about 27million. Population under poverty line is claimed as 31%, GDP growth rate is expected to be 2.3 %. More than 80%of the population is engaged in agriculture but the contribution of this sector to the GDP is yield by non-agriculture sector, whereas the population working under this sector is only 20 % (Economic Survey, 2006, NPC).

Bank is an institution that works for making the monetary 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.

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.

The increasing amount of liquidity has been considered as the major problem in banking sector. 'Commercial banks are currently holding about 89%of total deposit held by entire financial institutions which turns to rs.252.86billion in figure. In the mean time total liquidity held by the commercial banks is about 84% which turns to rs.38.46 billion **(**Banking and financial statistics, 2005 NRB). It means the level of deposit mobilizations is not good.

In modern age, economic condition is one of the most remarkable distinctions. In this universe, there are a number of countries whose economic condition is very high with per capita income of more than US $ 30,000.00 while there are such countries whose economic condition is very poor with per capita income of less than $200 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 through the

financial institution like finance company banks etc is important (Encyclopedia 1966 :232).

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 be half 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's 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 scared 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 with out 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.

The recent trend in the banking industries 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 deposit held by entire depositary institution, which turns out to 219billion rupees. In the mean time, the total loan outstanding and investments of commercial banks is about 180billkion rupees only. This clearly shows the level of deposit management by commercial banks and it requires something to be done immediately.

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 'Tezarath Addha' 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 'Tejarath Addha' 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)

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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. NABIL BANK and NCC BANK represent the private owned commercial bank that is considered as the well managed banks among the private sector and joint venture banks. 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.

NCC Bank Limited

Nepal Credit & Commerce Bank Ltd. was established on 14th October 1996 as Nepal - Bank of Ceylon Ltd. (NBOC), a Joint Venture Commercial Bank between Bank of Ceylon, Sri Lanka, the Pioneer Bank in Sri Lanka and Nepalese Promoters, NB Group (Nepal) Pvt. Ltd. and Nepal Insurance Company Ltd. It enjoys the reputation of the first Bank with largest authorized capital of NRS. 500 Million. It also ventured to establish its Head Office outside the capital of the country at Siddharthanagar, Rupandehi, the birthplace of LORD BUDDHA, The Light of Asia for the first time in the Nepalese context.

NBOC started its operations from Siddharthanagar on October 14, 1996. Within nine months of its operation NBOC expanded its business through four branches, Siddharthanagar and Lumbini in Rupandehi, Bag Bazaar in Kathmandu and Barahbise in Sindhupalchowk. The Name of the Bank has been changed to Nepal Credit & Commerce Bank Limited on 10th September 2002. This change was effected due to the transfer of shares and management from Sri Lankan co-venture to Nepalese Promoters. At present NCCB provides its financial facilities and services to rural and urban areas of the Kingdom through its 17 branches. The bank has developed corresponding agency relationship with more than 180 international banks having worldwide network.

Bankers with the quality service strive for expansion with profitability, professionalism and personalized Banking Services is the mission statement of the bank.

The main goal of NCCB is to provide a wide range of banking services and products in the emerging socio-economic environment within and outside the country maintaining high standards of integrity and efficiency with excellence.

Nabil Bank Limited

Nabil Bank Limited commenced its operation on 12 July 1984 as the first joint venture bank in Nepal. Dubai Bank Limited, Dubai (later acquired by Emirates Bank International, Dubai) was the first joint venture partner of Nabil. Currently, NB (International) Limited, Ireland is the foreign partner. Nabil Bank Limited had the official name Nepal Arab Bank

Limited till 31st December 2001. Nabil is pioneer in introducing many innovative products and marketing concept in banking sector of Nepal. Now days Nabil bank has different cards like visa electronic debit card, local currency visa and master card, USA dollar Master Card and foreign currency travel Master Card. The ownership of Nabil is composed as:

Subscription	% Holding
Foreign ownership	50%
Financial Institution (Employees Provident Fund)	20%
Nepalese Public share holder	30%
Total	**100%**

1.2 Focus of the study

This study focuses on the history of the deposit mobilization of total commercial banking system and two sampled banks NABIL and NCC. The study focuses on the analysis of efficiency of deposit mobilization of total commercial banking system and two sampled banks.

1.3 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.

I. Banks have not been able to utilize their deposits efficiently:

The recent trend observed in banking industry is that they have not been able to fully utilize their deposit fund by mobilizing it into productive sectors. Due to the deteriorating economic scenario, management of the banks, and the attitude of the board of directors, they have been able to lend about 60 percent of total deposits only.

II. Portion of cost bearing deposits to total deposits is high:

Referring to the Banks' composition of deposit liabilities, it can be said that they are holding too much of cost bearing deposits.

III. Safety of the Public Funds:

Banks are merely the financial intermediaries that accept the deposits from the savers and invest or lend the funds to the funds seekers in the economy. Therefore, issues related to the banks' investments, and lending certainly affect the Protection of funds deposited by the savers. Definitely, there are some rules and regulations prescribed by the central bank such as the recent one which compels the banks to issue their capital equal to a billion rupees. However, banks' loan investments, capital structures, existing management slacks etc. do not represent that the public funds deposited at the banks are safe.

IV. Excessive Money Creation:

Commercial banks deserve the power to create money and credit because the public readily accept claims on bank deposits, particularly checks, credit and debit cards, and computer entries, in payment for goods and services. In addition, the law requires individual banks to hold only a fraction of the amount of deposits received from the public as cash reserves, thus freeing up a majority of incoming funds for making loans and other investments.

This capacity of banks to create money and deposits has a number of important influences on the financial system and the economy as a whole. Banks can invest up to their money or deposit multiplier and money created by banks is also instantly available for spending. Therefore, unless carefully controlled by the central bank, it can fuel inflation.

1.4 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:

1. To analyze the financial factors like liquidity management, efficiency and profitability position in relation to deposit mobilization of commercial banks.
2. To observe the deposit mobilization position of government owned commercial banks and private sector commercial banks.
3. To identify the formation of deposit liabilities
4. To observe the trend of deposit and loan investment.
5. To provide suggestions on the basis of major findings.

1.5 Significance of the study

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.

I. 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 steep for the betterment of the condition.

1.6 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 posses numbers of limitations. Some specific limitations are as follows:

I. The research work will be made on the basis of latest four years' data from fiscal year 2003 to 2007.
II. Time is a limit for the study.
III. Simple statistical and financial tools are used for the analysis.
IV. Study is made on the basis of secondary data only.
V. The usage of transaction period of the selected banks has been determined by the specific nature and availability of data.

1.7 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:

1 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.

2 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 commercial banks.

3 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.

4 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.

5 Summaries, Conclusion and Recommendation

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 that is.

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 of 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 conclusion ad 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 purposed study has not carried out previously. Completely new and original problems are very rare, however a previous study should not exactly replicable unless the techniques used facilitate to trace out the doubtful conclusions or some new sources of information identified.

So, in this chapter, the emphasis is given to review of 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 NABIL and NCC. Every study is very much based on past knowledge. The previous studies can not 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.

Literature Review is basically a Stock Taking of available literature in one’s field of research. The literature survey thus provides us with the knowledge of the status of their field of research (Wolf and Pant; 2000:30).

To develop the concepts and ideas about the selected topic, the review of relevant materials is very important and crucial. The main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully. In this connection, a review of previous related studies reports, articles books will help the researcher to formulate a satisfactory structure for the study. the review of literature helps:

- To identify the problem in other words it provides a basis for identifying the areas for future research.
- To determine the methodology for research works.
- To draw delineation and scope for studies.
- To avoid unintentional replication of previous studies.
- To interpret the result in precise manner.

2.1 Conceptual Review

An attempt has been made to look in to 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. The deposit creating power of commercial banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give raise to liabilities. Traditionally, the deposit structure of a commercial bank was though to be determined by the depositors and not by bank management. There are regular changes in this view in the modern banking industry (Vidya; 1999:68).

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 & 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 & securities. This is called derived deposits of derivative deposits. They add to the supply off money. Banks actively create such deposits (The Encyclopedia Britanica, 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 a/c of a bank or financial institution. People in general, the businessmen; the industrialist & other individuals deposit money in a bank. Bank, flows such amount as loan & invest in different sectors to earn profit. Usually, a bank accepts three types of deposits. They are current, saving & 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 a/c under various terms & conditions. This classification is made on different theoretical & financial basis. Therefore, deposits of bank are classified on the following basis:

i. Demand Deposits
ii. Saving Deposits
iii. Fixed deposits

i. Demand Deposits

The deposit in which an amount is immediately paid at the time of any a/c holder's demand is called demand deposits. In another words, we can say this type of demand deposit as current a/c. current a/c means an a/c of amounts deposited in a bank, which may be drawn at any time on demand. Its transaction is continual & 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 & 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 a/c. the bank can't impose any condition & restrictions in demand deposit. An institution or an individual, who usually needs money daily, precedes their acts & transaction through such deposit. The current a/c is very important for the customers of bank.

In any institution, which carries out cash transaction, there is possibility of corruption; misuses & fraud. There should be a provision of separate employees for the recovery of the cash & for the payment of the cash. The current a/c 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 & on other hand, the bank keeps the accurate of the a/c 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 & its necessity & 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 who have low income, official & small businessmen. This saving deposit bears the features of both of the current & 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 & 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 & 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 tears, 4 years, 5 years etc. More interest rate is payable in this deposit than other deposit. Both parties the bank & the customers can take benefit from this deposit. The banks invest this money on the productive sector & gains profit & 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. Deposits Mobilization

Collecting scattered small amount of capital through different Medias & investing the deposited fund in productive sector with a view to increase the income of the depositor is meant deposit mobilization. In the other words, investing the collecting fund in the productive sectors & increasing the income of the depositor, it also supports to increase the saving through the investment of increased extra amount (NRB, 1984; 24:10-12).

When we discuss about Deposit Mobilization, we are concerned with increasing the income of the low income group of people & to make them able to save more & to invest again the collected amount in the development activities.

The main objective of Deposit Mobilization is to convert idle saving into active saving (NBL,2037:4, 7).

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

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

To achieve the higher rate of growth and per capita income, economic development should be accelerated. “Economic development may be defined in a very broad sense as a process of raising income per head through the accumulation of capital (Johnson, 1965:11).
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 with in the country, play in a dominant role. In the context of Nepal, commercial bank is the main financial institution which can play very important role in the resource mobilization for the economic development in the country. Trade, industry, agriculture and commerce should be developed for the economic development.

Economic development so defined is necessary and sufficient to generate rate of saving and investment. The generation of high rates of saving and there by investment is possible only through the commercial banks. Commercial banks occupies greater role in economic development by generating the saving towards the desired sectors from one place to another, communicating with its branches and agencies in different part of the country and the world and advising to the commercial people. Increasing the income of the low income group of people and making them able to save more, deposit mobilization helps to invest the collected deposit in desired sector (NRB, 1984:24,25).

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 helps of banks will prove effective in mobilizing the available floating resources in the country (Ghosal and Shrma, 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, 2055.4:14)

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 deposal. A Commercial bank changes the scattered unproductive small saving into Lon able & active savings. The bank not only collect saving, but also it provides incentives to the saver & help them to be able to save more

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

2.1.1.2.1 Need for Deposits Mobilization

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

Capital is needed for the development of any sector of the country. The objective of Deposit Mobilization is to collect the scattered capital in different forms within the country.

It is much more important to canalize the collected deposit in the priority sector of a country. In our developing country's we have to promote our business & other sectors by investing the accumulated capital towards productive sectors.

The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can flow forwards buying unnecessary & luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.

Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors, but also in other sectors like food grains, gold & silver etc. though these loans are traditional in nature & are not helpful to increase productivity, but it helps, to some extent, to mobilize bank deposit.

To increase saving is to mobilize deposit. It is because if the production of agricultural & industrial products increases, it gives additional income, which helps to save more, & ultimately it plays a good role in deposit mobilization. Deposit mobilization plays a vital role for the economic development of an under developed & developing country, rather than developed on e. it is because, a developed country does not feel the need of deposit mobilization for Under Developed Country (UDC) & developing country.

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

2.1.1.2.2 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) 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) 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.

vii) 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.

viii) 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

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 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 rocking, 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**.**

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, vol.14: 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.

The term commercial bank is also misleading because the fact that commercial bank performs not only one but many type pf functions. Today the commercial banks not only issue the transfer deposits through cheques but they also operate underwriters to new equity issue deal facilities handle tax matters on behalf of their clients etc (Vaish, 1993: 245).

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 of 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 can not 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. to their customers.

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

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

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.

But those customers who often take loans from the bank, the credits creation function may be the most important. The commercial bank is different from the other banks especially from central bank. In appearance the main distinction between Central Bank and a Commercial Bank is that now-a-days the Central bank does not much banking, but the more fundamental difference is one of aim.
The main objective of the Commercial Bank is to make profit whereas the Central Bank thinks of the effects of its operations on the working of the economic system. The Commercial has the shareholders and is expected to the best it can for them but the Central Bank by contrast is usually owned by the government. The Commercial Bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly impersonal and are confided to what is necessary for influencing the country's financial business in the directions citrated by economic policy (Sayers, 1972:17-18).

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

Nepal being an underdeveloped country, its industries, agriculture, sectors has been expanding. It provides the credit facilities for the development of agriculture in cases where Agricultural Development Banks & Cooperative Societies do not enter into the field. The agriculture sector needs more & more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require obliviously more investment. Thus role commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal.

The economy of our country is dominated by agricultural sector. This could be exemplified about 76 % of the total population is engaged in agriculture & about 40 % of the national income comes from the agriculture. Similarly, about 51% of the export trade is in agricultural product. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture. This is very clear that in such a country the financial help to the agriculture sector is most urgent & indispensable for strengthening the base of national economic structure.

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

1. By providing fixed capital to Agricultural Development Bank by purchasing its Shares of debentures
2. By giving direct credit facility to the farmers on the mortgage of their land, house, food grains & other cash crops like jute, tobacco etc.

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

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

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

The role of Commercial Banks is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more & more upon the supply of capital by the banks. It would not be exaggeration to state that commercial banks are mainly responsible for whatever the financial institutions like ABD/N, NIDC have already been established for the development of agricultural & industrial sector of the country. The commercial banks are also continuously participating in these activities.

Being a mountainous country many places are very remote & sometimes it requires many weeks to approach some of the places. Due to lack of transport & communication facilities & other geographical causes, the country has been still facing the problem of imbalances economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial Banks have their appropriate role to play here by expanding their branches in the differently hilly & Terai regions availing loan to the local people. In industrial sector, Commercial Banks are providing the necessary financial help for the industrial establishment in the country. They provide short & medium term loan to purchase machineries, tools, raw materials etc. & introduce new & developed techniques of production.

Without the development of foreign trade, Economic Development of a country will not be possible. Nepal has focused its trade with India & Tibet only few years ago. Today, Nepal has extended with different countries of the world. Commercial Banks has promoted the domestic & foreign trade of Nepal by spreading their braches all over the country & extending close relations with many renowned institutions by providing 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 & accepting traveler cheques from the tourists.

So, the role of Commercial Banks is extremely important for the development of industries, trade, commerce, agriculture etc. of the country. In fact, no nation can develop itself without the development of these banks. It is not only true in the capitalist countries but also true in the socialist countries & the mixed economic countries like Nepal as well.

2.1.2.2 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 & facility, to make available loan to Agriculture, Industry & Commerce & to provide the banking services to the public & the state. Along with other functions, the main functions of commercial banks are to accept deposits from the people & to lend to those who demand it. Numerically, these functions could be categorized into the following functions:

i. Liquidity Function
ii. Savings Function
iii. Wealth Function
iv. Payment Function
v. Credit Function
vi. Policy Function

2.1.2.2. Credit Creation by Commercial Banks

The creation of credit or deposit is one of the most important functions of commercial banks. Bankers are dealer of money who deal others people’s money. Banks generate profits by accepting cash through demand deposits and advance loan on credit to customers. When a bank advances a loan, it does not pay the amount in cash. But it opens a current account in his name and allows him to withdraw the required sum by checks. But very often, the customer retains certain amount with the bank in a deposit. In this way, the bank creates credit on deposits the process is explained how the credit is created by the help of deposits.

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

On the other hand, when a bank advances money by discounting a bill of exchange, the proceeds of the bill are credited to the customer's account. The deposits of the customers will then increase. More deposit can make more lending by banks. This is also one of the ways of creating credit.

We know that the bank provides overdraft facility to a customer on the basis of some security. The bank enters the amount of the overdraft in the existing account of the customers & the customer is allowed to overdraw his account up to the fixed limit subject to the condition that the amount overdrawn from time to time is more than fully covered by the market value of the securities lodged with the bank. The amount may be used to buy goods & services. He can make payment by issuing cheques in settlement of his transactions. This process gives the bank an additional supply of money which did not exist before.

A bank also creates a deposit by making investments by buying government bonds& securities. The bank pays for the bond through a cheque on itself to the central bank. If it buys security from others, it creates the amount in the account of the seller, provided he is the bank's customers. Otherwise it pays by cheque which is deposited in some other bank. In all such cases, liabilities & assets in the banking system on the whole are increased. Thus loans by create deposits or credit is created by banks (Vidya, 2001:42-44).

When funds are plentiful, market rate generally tend to decline, banks seek loan aggressively & therefore lower their rates induce marginal borrower to come into the market. When funds are scarce banks arise their rates & come potential borrower may differ the use of credit or seek it elsewhere.

Some writers stress on the fulfillment of credit needs of various sectors which insure investment. The investment lending policy of commercial bank is based on the profit maximization as well as the enhancement of the country.

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

ii. Deposits

Deposits are the main resources of commercial banks for issuing loans. Deposits are received from various forms and on the name of different accounts. There are mainly three types of deposits: current, saving and fixed. In a developing country like Nepal, where the majority of the people are still poor, saving deposits have played a significant role for the development of the country. Therefore the main source of raising capital is that of deposits. The deposit function of the banker is important because it has to aggregate small sum of money lying scattered here and there twenties, fifties and hundred. Singly these sums have no economic efficiency what so ever but they can accomplish Herculean tasks when they are aggregate and employed by the banker (Roland, 1962: 20).

iii. Internal and External Borrowing

Internal and external borrowings are very important for a developing county like Nepal being and underdeveloped country; commercial bank cannot fulfill the necessities of the society. Therefore commercial banks are allowed to borrow from both two sources external and internal. Generally external borrowing means the borrowing from foreign banks, foreign government, international banks for reconstruction and development (IBRD).Internal monetary fund (IMF)etc. internally commercial banks can borrow from only one source that is from NRB.

2.2. Review of Related Studies

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

2.2.1 Review of Articles

Bajracharya, 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 purposes commercial banks stood as the vital & active financial intermediary for generating resources in the form of deposit of the private sector so for proving credit to the investor's in different aspects of economy

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

Joshi the chief officer of NRB in the topic *"Rural Saving Mobilization in Nepal"* states that: The ability to save & 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

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 & 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 & making it more productive.

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

a. Effective publicity and attractive prizes.
b. Branch expansion policy.
c. Extend the house saving account.
d. Revision in interest rate policy.
e. Credit planning.
f. Win the confidence of local people.
g. Investment in priority sector.

Pradhan, 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.

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 deposing facilities and so on.
ii. Unavailability of the institutional services in rural areas.
iii. Due to lesser office hours of banking systems people prefers holding and cash in the personal possession.

iv. 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;

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

Kafle 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 21062%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 & 11.9in the two period respectively

Mr. Bhatta, on his article "*financial policies to prevent financial crisis*" has given more emphasis on Nepalese financial market sector. He has mention the financial crisis occurred in China, Mexico, South Asia, Russian Federation Ecuador, Brazil & Argentina. This crisis affected all this economic by posing negative effect in their real output. He has also focused on Nepalese financial market, which is directly effected by the national and international events. The most effected event was September 11 incident in the U.S.A., have added more to the fragility in the global financial market. In present context in many part of the world, the move towards liberalization is getting its momentum on one hand and process of economic development is being threatened due to various anticipated incidents on the other. He has define a financial crisis is a description to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

He has given light on the dynamics of financial crisis dividing it into three stages. Also he has suggested the policies to prevent financial crisis. Following policies are supposed to be applicable for preventing financial crisis.

1. Prudential supervision.
2. Accounting standards &disclosure requirements.
3. Legal and judicial system.
4. Monetary policy and price stability.
5. Exchange rate regimes and foreign exchange reserves.
6. Capital controls.
7. Restrictions on foreign denominated debt.
8. Reduction of the role of the state owned financial institution.
9. Encouraging market based discipline.
10. Entry of foreign banks.
11. Limitation of too-big –to fail in the corporate sector.
12. Sequencing financial liberalization etc.

Lastly he has conducted that there is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experiences of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation on the global market place until a sound domestic infrastructure can be put into place

Shrestha, in her Ph.D thesis entitled. “*Investment planning of Commercial Banks in Nepal.”* has concluded that bank portfolio (loan and investment) of commercial banks has been influenced by the variable securities rates. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, safety, liquidity, productivity, and social responsibility. To overcome this problem she has suggested “commercial; bank should take their investment function with proper business attitude and should perform landing and investment operation efficiently with proper analysis of the project.

Mr. Shrestha, 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, Mr. 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 develops alternative investment strategies for selecting a better Portfolio, which 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 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.

1. Unawareness of the clients about the services available.
2. Hesitation of taking risk by the clients to use such facilities.
3. Lack of proper techniques to run such activities in the best and successful manner.
4. 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 drowned following conclusion-

1. The survival of the banks depends upon its own financial health and various activities.
2. 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.
3. 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.

4. 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 Previous Research

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.

Madan Nath Karmacharya, in this 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.

Main objects are as follows

1. To discuss Deposited mobilization and investment policy of Napal Bank Limited.

2. To analyze the trends of deposits utilization towards total investment and loan and advances and its projection for next five years.

Main finding are as follows

1. NBL has maintained high growth rates in total deposit, loan and advances but it has moderate position in investment.

2. There is significant relationship between deposit and loan and advances and outside assets and net profit of NBL.

Main recommendations are as follows

1. Nepal bank, backed by its credibility, high quality service and security has been able to increase its deposit collection consistently

2.Nepal bank has given more priority to invest its fund in government securities and depositors money has been less utilized as loan and advances

Samiksha Thapa, 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.

Main objects are as follows

1. To evaluate liquidity, activity and profitability ratios of NBBL in comparison with NBL and industry average.

2. To analyze relationship of loan and advance and total investments with total deposit and net profit of NBBL and to compare it with that of NBL and industry average.

Main finding are as flows

1. NBBL has good deposit collection, enough loan and advance and investment in government securities. It has comparatively better liquidity position than NBL.

2. NBBL is in comparatively better position regarding issue of loan and advance but it does not have good position regarding investment in shares and debentures of other companies, off balance sheet operation. Loan Loss ratio shows low quality of loan and advance.

Main recommendations are as follows

1. Both the banks have invested nominal percentage of its funds in shares and debentures of other companies.

2. NRB has directed the banks to extend a certain percentage of loan and advances to the deprived and priority sector

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

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

Main finding of the study

1. Deposits are collected much from individuals and deposits from organization are very low.

2. Loans are granted more 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.

A study conducted by Shiva Bhadur Pradhan entitled; *(A study on investment policy of NBL, 1980)* has tried to find out to what extent NBL has been able to utilized mobilized deposits. This is concerned only from 2029 to 2034 B.S..

Main object of this study

1. To analyze the risk and return ratios of commercial banks.

2. To evaluate the financial performance of JVB's.

3. To study existing investment policies taken by NBL in various sectors.

Main finding of the study

1. NBL has the highest return on shareholders’ fund and total assets. It has also been successful in mobilizing its deposits as investments.

2. Looking at the investment portfolio, NBL has investment highest amount of funds in government securities.

Main recommendations are as follows

1.Portfolio management refers to the allocation of funds into different components of its assets, having different degree of risk and varying rate of return in such a manner that the conflicting goals of maximum yield and minimum risk can be achieved.

2. The introduction of margin lending by NBL at 6.5% per annum against shares of selected companies can be viewed as a new opportunity for investment. Bank sources claim to have already disbursed over Rupees 500 million in a month to margin clients.

Ram Hari Agrawal, in the thesis entitled, *(A study on deposit and investment position of Yeti Finance Company Ltd., 2002*) 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 (Agrawal, 2000).

Main object of the study

1. To discuss fund mobilization and investment policy of YFCL.

2. To evaluate the liquidity, efficiency, profitability and risk position of YFCL.

Main finding of the study

1. Deposit policy is not stale but has highly fluctuating trend and investment is gradually in increasing trend.

2. 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.

Upendra,Tandukar, in the thesis entitled (Role of NRB in deposit mobilization of commercial banks, 2003)

Main object of this study

1. To examine role of NRB in deposit collection by the commercial banks

2. To analyze the trend, of deposits mobilization towards total investment and loan and advances.

Main finding of the study

1. The researcher has found that it can be said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks

but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks.

2. Deposit and loan and advances of NBBL are higher than EBL but in case of the investment EBL is able to mobilize more funds than NBBL in this sector.

Rajesh Raj Khadka in his thesis paper, **(***A study on the investment policy of Nepal Arab Bank ltd. In comparison other joint venture banks in Nepal,1998***)** He has compared investment policy of NAB ltd. with Nepal Grind lays Bank Limited (NGB) and Nepal Indosuez Bank Ltd. his study is based on five years period from 1992 to 1996. He has taken only two banks to compare the investment policy NAIL among thirteen commercial banks in Nepal.

Main object of the study

1. To find out relationship between total investments, deposits, loan and advances, net profit and outside asset and compare them.

2. To compare investment policies of concerned banks and discuss the fund mobilization of sample banks.

3.To analyze the risk position of both bank.

Main finding of the study

1. Both joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers.

2. NGB to utilizing risk assets and shareholders funds to gain highest profit margin, reduce its expenses, and cheaper fund for more profitability.

3. NGB has invested a high portion of total working fund in government securities and shares & debentures of other companies.

4. The profitability position of NGB is better than NIBL.

Ganesh Gautam (2006) has conducted a thesis research entitled "Investment portfolio Analysis of JVB's".

The specific objectives of the study were:

a) To analyze the risk and return ratios of commercial banks.

b) To evaluate the financial performance of JVB's.

c) To provide suggestion package based on the analysis of data.

Main finding of the study

1. SCBNL has the highest return on shareholders' fund and total assets. It has also been successful in mobilizing its deposits as investments. NABIL and EBL have invested high amounts of deposits as loan and advances in comparison to SCBNL, NABIL and HBL.

2.Among the JVB's, looking at the investment portfolio, EBL has investment highest amount of funds in government securities, NBB has invested highest amount of funds on shares and debentures and NABIL has invested highest amount of funds in NRB bonds in comparison to other JVB's.

Main recommendations are as follows

1.SCBNL, backed by its credibility, high quality service and security has been able to increase its deposit collection consistently. While other banks are coming up with a host of measures to increase their deposits, NABIL's strategy of selective shedding of unprofitable deposits seems off the tune

2. SCBNL has given more priority to invest its fund in government securities and depositors money has been less utilized as loan and advances. Though securities issued by government are risk free but such instruments after lower interest rate.

2.4 Research Gap

Commercial banks have huge deposit collection. These deposits need to be properly utilized. Effective utilization of collected fund is possible only through implementation of sound investment policy. NABIL and NCC are the best examples of JVB's in Nepal that have been able to mobilize the funds in an effective manner and achieved phenomenal growth and profit year after year by formulating and implementing sound investment policy.

Most research studies conducted prior to this study involving comparative analysis comprised of a successful bank and an emerging bank as samples. It was obvious that the successful bank with sound financial health would excel in various aspects of banking. The possibility of the samples showing different result during data analysis was high. The financial and empirical analysis to data revealed higher degree of consistency in case of successful bank and less uniformity in case of emerging bank.

This study comprises of two of the most successful JVB's as sample NABIL and NCC. This study is also different from previous studies in view of the time period its covers. During this period the country has witnessed political uncertainty, deteriorating security situation that have rendered the economy further sluggish. There has been a restructuring in the banking business. This study gives a new dimension to the research topic in the sense that it has adhered to most of the fresh guidelines and directives issued by NRB to commercial banks, which previous studies lack. This study aims at providing a more realistic picture to various financial aspects of the sample banks. In line with fresh guidelines and NRB directives and practices adopted by banks, some items of the balance sheet that were previously booked under one heading have now been accounted under a different heading. For instance, leasehold improvements or deferred expenditure that were previously a part of current assets have been accounted for under fixed assets as they are amortized over the period of lease. Similarly, staff loan and advances previously part of Loan Advances and Bills purchase have been booked under other assets, checks presented for clearing have been booked under other assets. Gratuity is expensed of on accrual basis and is now a part of personnel expense. Previously, it was the practice of banks to include it under current liabilities and appropriate it from profit and loss Account.

This study will reveal the strength and weaknesses of the sample bank and serve as a valuable input in decision-making process of the concerned banks and other emerging banks in formulating appropriate investment policy.

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 where as 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 chattered bank has got in the whole commercial JVBS of Nepal & recommend the useful & 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

A research design is the arrangement of conditions for collection & analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure**.** Research design is the plan, structure & strategy of investigation conceived. So as to obtain answers to research questions & to control variances. To achieve the objective of the study, description & analytical research design have been used.

Basically, 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 through analysis of gathered facts and information and critically evaluates it as well.

Some statistical & accounting tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of Nabil bank & NCC bank 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 & advances, assets, & profit are directly obtained from the balance sheet & profit & loss a/c of concerned bank’s annual reports. Supplementary data & information are collected from number of institution & regulating authorities like NRB, security exchange board, Nepal stock exchange Ltd, ministry of finance budget speech of different fiscal years, economic survey & national planning commission etc.

According to the need & objectives, all the secondary data are compiled. Processed & tabulated in time series. In order to judge the reliability of data provided by the banks & other sources, they were compiled with the annual reports of auditors. Formal & 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 & information are collected from the periodic economic journals, managerial magazines & other published & unpublished reports & 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 Rastra Bank.
- Annual report of NABIL BANK Ltd
- Annual Reports of NCC BANK Ltd.
- Central Bank's directives to Commercial Banks:
- Statistics Nirdesika 2063
- Directive I to II

- Consortium Financial Directive
- Main Economic Indicators
- Recent macro economic situation of Nepal, 2007/2008

3.4 Population & Sampling of the study

There are twenty-six commercial banks operating in Nepal which accept about 81 percent of the total deposits and sanction 71 percent of total loans and advances out of the total depository institutions. 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 & 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 & resources, simple analytical statistical tools such as graph, percentage, Karl Pearson's coefficient of correlation, & 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 & 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 & 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 & 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'.

I. Liquidity Ratios

Liquid Assets to Total Assets ratio = $\frac{\text{liquid assets}}{\text{Total assets}}$

Liquid fund to total deposit ratio = $\frac{\text{liquid fund}}{\text{Total deposits}}$

Cash and bank balance to current assets ratio = $\frac{\text{cash and bank balance}}{\text{Current assets}}$

ii. Assets Management Ratios

Total deposit to total liabilities ratio = $\frac{\text{Total deposit}}{\text{Total liabilities}}$

Loan and advances to total deposit ratio = $\frac{\text{loan and advances}}{\text{Total deposits}}$

Total investment to total deposit ratio = $\frac{\text{Total investment}}{\text{Total deposits}}$

Loan and advances to total assets ratio = $\frac{\text{loan and advances}}{\text{Total assets}}$

Investment on government bond to total deposit ratio = $\frac{\text{Investment on government bond}}{\text{Total deposit}}$

iii. Profitability Ratios

Interest income to total income ratio = $\frac{\text{Interest income}}{\text{Total income}}$

Return on loan and advances ratio = $\frac{\text{Net profit}}{\text{Loan \& adv}}$

Return on total assets ratio = $\frac{\text{Net profit}}{\text{Total assets}}$

Interest expenses to total expenses = $\frac{\text{Interest expenses}}{\text{Total expenses}}$

iv. Growth Ratios

Growth ratio of deposit

Growth of loan and advances

Growth of investment

Growth of return

Standard Deviation

The measurement of the scatter ness 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 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.

$$S.D. = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Co-efficient of variance (C .V)

The co-efficient of variance is the relative measurement of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percentage. It is calculated as.

$$C.V = \frac{S.D}{Mean} \times 100\%$$

Where,

Standard deviation (S.D.) = $\sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$

3.6.2 Statistical tools

3.6.2.I Coefficient of Correlation Analysis (r)

“Correlation is the statistical tools that we can use to describe the degree to which one variable in 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 & -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:

$$r = \frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2 \sum(y-\bar{y})^2}}$$

Probable error of correlation is calculated by following formula**.**

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

3.6.2. Least Square Linear Trend

Among the various methods of determining trend of a time series, the most popular & mathematical method is the least square method. Using the method of least square it has been tried to estimate the figure trend of loan & advances & deposit investment. For estimation, straight- line method is.

$$Y = a + bx$$

Where, Y = Dependent variable. X= independent variable

a = Y intercept b= slope of the trend line

CHAPTER –IV

DATA PRESENTATION AND ANALYSIS

This is an analytical chapter, which primarily deals with the presentation and analysis of data collected from various sources with a view to measure the various dimensions of the problems of the study that particularly affects the investment management and fund mobilization of NCC BANK and NABIL BANK LTD.

4.1 Financial Analysis

4.1.1 Liquidity Ratios

(a) Cash and Bank Balance to Total Deposits Ratio

Cash & bank balance are the most liquid current assets, which is said to be the first defense of every bank. This ratio measures the availability of a bank's highly liquid and immediately available fund to meet its unanticipated calls on all type of deposits. This ratio is computed by dividing cash & bank balance by total deposits. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

Cash and bank balance is composed of cash at hand, deposits with the central bank, deposits with other banks and financial institutions

$$\textit{Cash and Bank Balance to Total Deposits Ratio}\,\mathrm{X}\frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

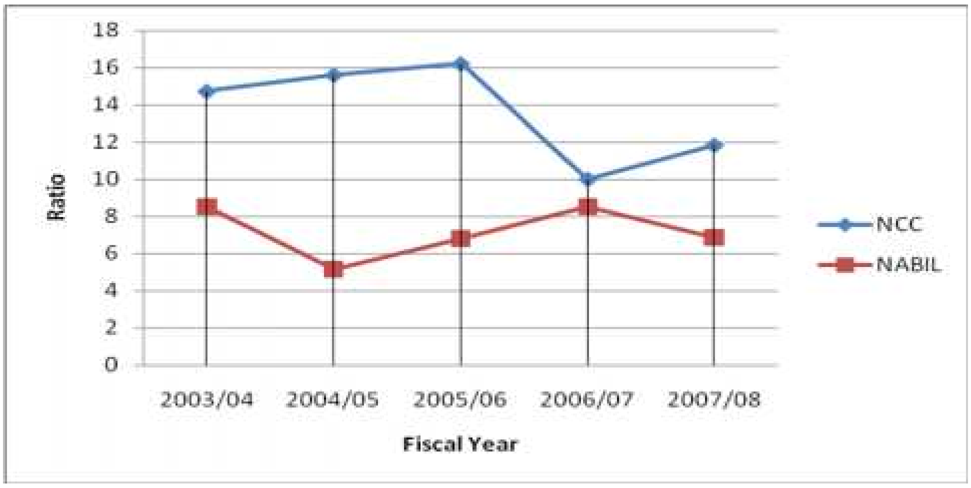
Table: 4.1

Cash and Bank Balance to Total Deposits Ratio

Year	Ratio (%)	
	NCC	NABIL
2003/04	14.72	8.52
2004/05	15.61	5.13
2005/06	16.21	6.78
2006/07	10	8.51
2007/08	11.84	6.87
Mean ($\overline{X}$)	**13.68**	**7.16**
S.D.(±)	**2.37**	**1.27**
C.V.	**17.32**	**17.37**

Source: Appendix-1

Figure: 4.1
Cash and Bank Balance to Total Deposits Ratio



From the above analysis, cash and bank balance to total deposits ratio of the two banks followed a fluctuating trend. The higher ratio of NCC and NABIL are 16.21% and 8.52% respectively in the year 2005/06 and2003/04.The average ratio of NCC is greater than that of NABIL (i.e. 13.68%>7.16%). The variability of the ratio of NCC is lower than that of NABIL Bank Limited.

(b) Cash and Bank Balance to Current Assets Ratio

This ratio reflects the proportion of cash and bank balance out of total current assets. It can be calculated as follows:

$$\textit{Cash and Bank Balance to Current Assets ratio} = \frac{CashandBankBalance}{CurrentAssets}$$

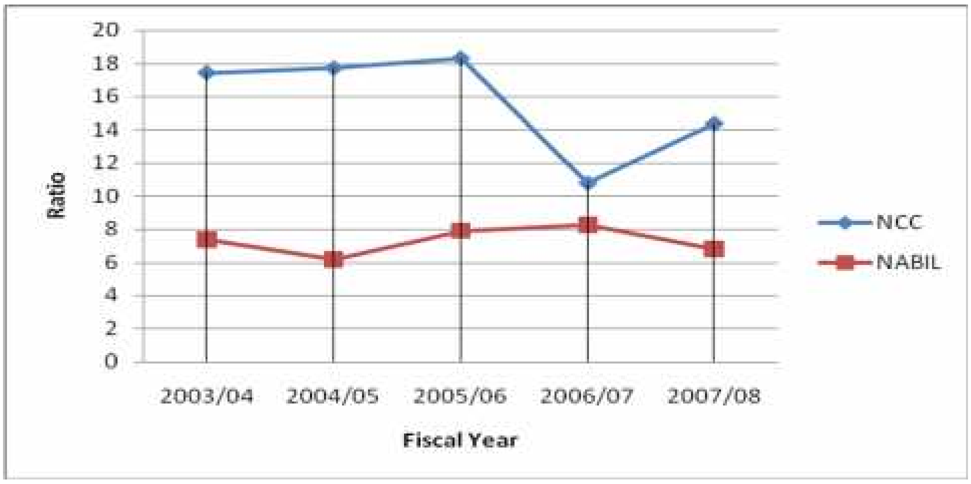
Table: 4.2

Cash and Bank Balance to Current Assets Ratio

Year	Ratio (%)	
	NCC	NABIL
2003/04	17.45	7.36
2004/05	17.73	6.17
2005/06	18.32	7.90
2006/07	10.81	8.25
2007/08	14.39	6.81
Mean ($\overline{X}$)	**15.74**	**7.29**
S.D.(±)	**2.82**	**3.28**
C.V.	**17.92**	**44.99**

Source: Appendix-1

Figure: 4.2
Cash and Bank Balance to Current Assets Ratio



Both banks have maintained the cash and bank balance to current assets in fluctuating trend. NABIL has maintained fewer ratios than that of NCC. The highest ratio of the NCC is 18.32 in the year 2005/06 and the lowest ratio is 10.18% in the year 2006/07. The NABIL bank has lowest ratio of cash and bank balance in the year 2004/05 i.e. 6.17%. Among two banks, NCC has the lowest standard deviation and coefficient of variation.

(c) Investment on Government Securities to Current Assets Ratio

Investment on government securities to current assets ratio reflects the current assets invested on government securities, treasury bills and development bonds. Though the government securities are not so liquid as cash & balance, they can be easily sold in the market or they can be easily converted into cash in other ways and they are risk free too.

This ratio shows that out of total current assets, how much percentage of it has been occupied by the investment on government securities. This ratio is calculated by dividing the amount invested on government securities by current assets.

$$Investment\ on\ Govt.\ Securities\ to\ Current\ Assets = \frac{Investment on Gov. Securities}{Current Assets}$$

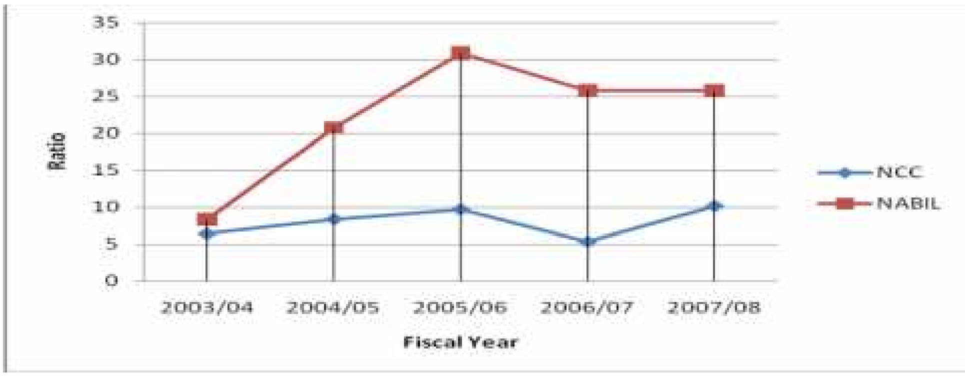
Table: 4.3

Investment on Government Securities to Current Assets Ratio

Year	Ratio (%)	
	NCC	NABIL
2003/04	6.38	8.34
2004/05	8.34	20.76
2005/06	9.67	30.94
2006/07	5.3	25.87
2007/08	10.12	25.78
Mean ($\overline{X}$)	**7.96**	**22.34**
S.D.(±)	**1.86**	**7.7**
C.V.	**23.37**	**34.46**

Source: Appendix-1

Figure: 4.3
Investment on Government Securities to Current Assets Ratio



Both banks has invested their fund in government securities in variable trend.. NCC has invested low portion of current assets in government securities i.e. 5.3% in the year 2006/07 and high portion in the year 2007/08 i.e.10.12% where as NABIL has invested low portion of current assets i.e.8.34% in the year 2003/04 and high portion i.e. 30.94% in the year 2005/06. The mean ratio of NABIL is higher than that of NCC (i.e. 7.96%>22.34%). NABIL seems more variable in investing its current assets than that of NCC.

4.1.2 Assets Management Ratio

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets properly to earn high profit. Under this chapter following ratio are studied:

(a) Loan and Advances to Total Deposits Ratio

The ratio measures the extent to which the banks are successful to mobilize their total deposits on loan and advances. We have,

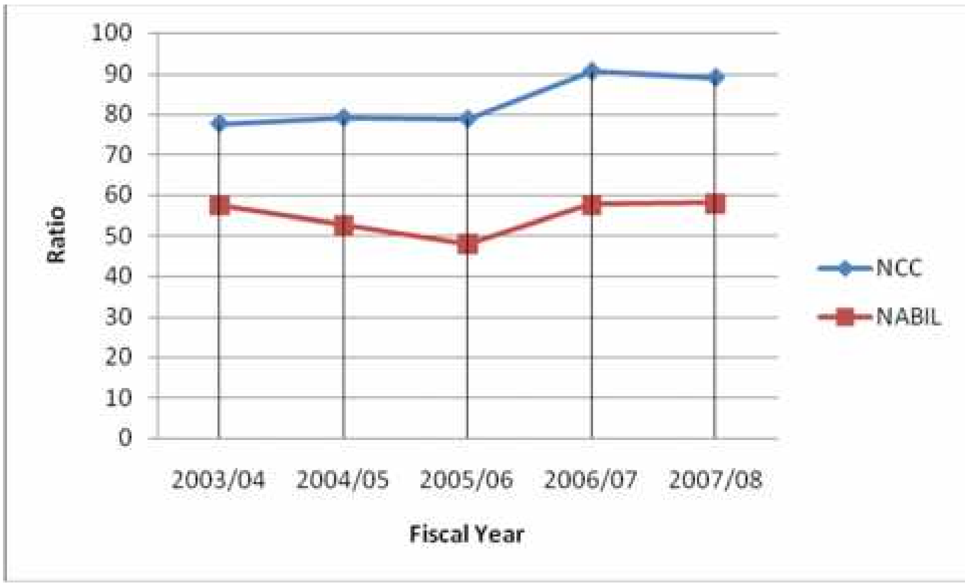
$$\text{Loan and Advances to Total Deposits Ratio} = \frac{LoananddAdvances}{TotalDeposit}$$

Table: 4.4
Loan and Advances to Total Deposits Ratio

Year	Ratio (%)	
	NCC	NABIL
2003/04	77.6	57.39
2004/05	79.09	52.55
2005/06	78.78	47.96
2006/07	90.66	57.67
2007/08	89.12	58.01
Mean ($\overline{X}$)	**83.05**	**54.72**
S.D.(±)	**5.63**	**3.93**
C.V.	**6.78**	**7.18**

Source: Appendix-1

Figure: 4.4
Loan and Advances to Total Deposits Ratio



A high ratio of loan and advances indicates better mobilization of collected deposits and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. The above comparative table shows that these two banks have mobilized their collected deposits in variable trend. The highest ratio of NCC and NABIL are 90.66% and 58.01% respectively. In average NCC has mobilized 83.05% of its collected deposit in loan and advances that is more than that of NABIL.NCC seems to be more consistent in mobilizing its total deposits as loan and advances than that of NABIL due to low coefficient of variation.

In this analysis ratios of loan and advances to total deposit of NCC and NABIL are taken and are carried out under t-test of significance difference. Since, the calculated value of |t| i.e. 2.27 is greater than the tabulated value 2.179. It is significant and Null Hypothesis is rejected hence alternative hypothesis is accepted, which means that there is significant difference between mean ratios of loan and advances to total deposits of NCC and NABIL (Appendix-1).

(b) Total Investment to Total Deposits Ratio

Total investment to total deposit ratio indicates how properly firm's deposits have been invested on government securities and shares and debentures of the other companies. This ratio can be computed by dividing the total investment by total amount of deposit collections

Total Investments to Total Deposits Ratio= $\frac{TotalInvestment}{TotalDeposit}$

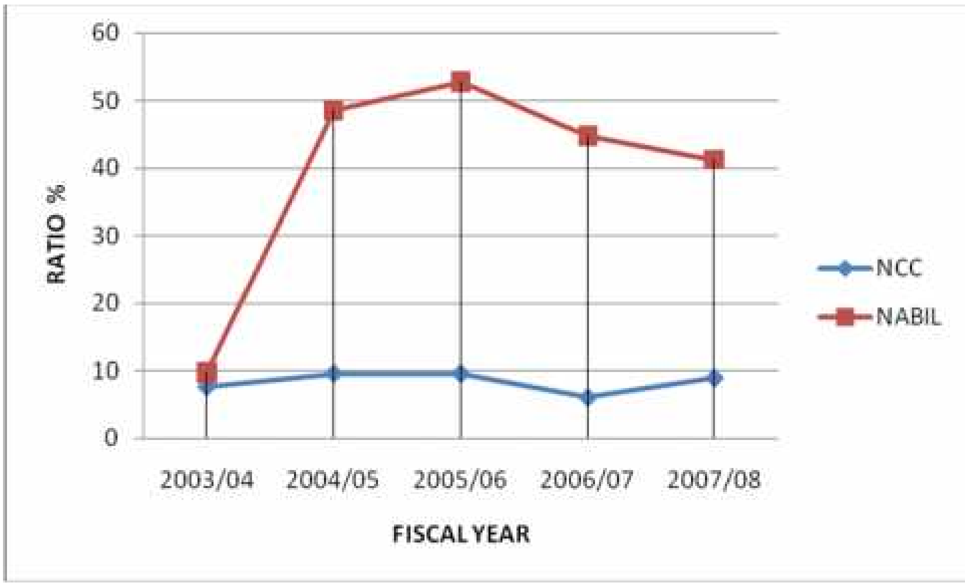
Table: 4.5

Total Investment to Total Deposits Ratio

Year	Ratio (%)	
	NCC	**NABIL**
2003/04	7.64	9.78
2004/05	9.59	48.64
2005/06	9.59	52.87
2006/07	6.04	44.85
2007/08	8.94	41.33
Mean ($\overline{X}$)	**8.36**	**39.49**
S.D.(±)	**1.36**	**15.35**
C.V.	**16.27**	**38.87**

Source: Appendix –2

Figure: 4.5
Total Investment to Total Deposits Ratio



From the study of mean ratio we can conclude that, NABIL has mobilized its collected deposits on investment better than that of NCC. . NCC has lowest ratio of 6.040% in the year 2006/07 and highest ratio of 9.59% in the year 2004/05 where as NABIL has lowest ratio of 9.78% in the year 2003/04 and highest is 52.87% in the year 2005/06. The coefficient of variation of NABIL is 38.87% which is more than that of NCC.

(c) Loan and Advances to Total Working Fund Ratio

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 fund on loan and advances and vice versa. We have,

$$\text{Loan and Advances to TWF Ratio} = \frac{TotalLoanandAdvances}{TotalWorkingFund}$$

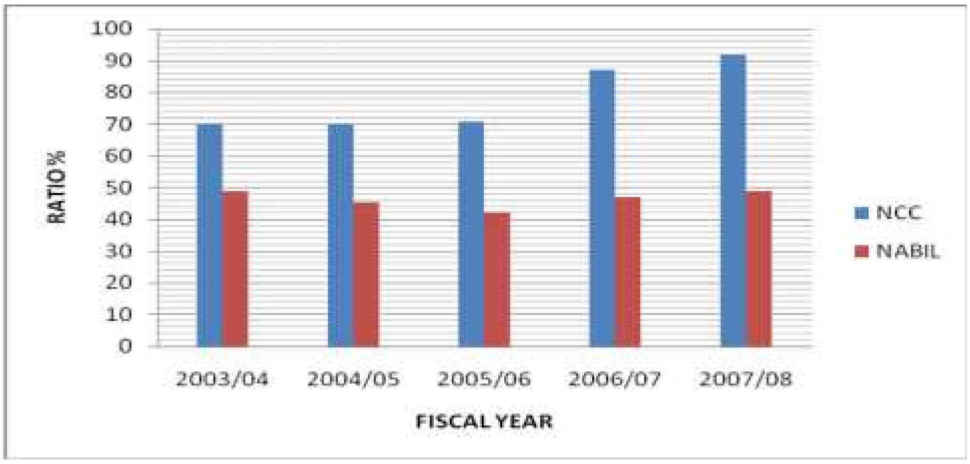
Table: 4.6

Loan and Advances to Total Working Fund Ratio

Year	Ratio (%)	
	NCC	NABIL
2003/04	70.28	48.82
2004/05	70.28	45.32
2005/06	70.82	42.19
2006/07	86.9	46.83
2007/08	91.78	48.91
Mean ($\overline{X}$)	**78.01**	**46.41**
S.D.(±)	**9.38**	**2.5**
C.V.	**12.02**	**5.39**

Source: Appendix -2

Figure: 4.6
Loan and Advances to Total Working Fund Ratio



During the study period NABIL has highest ratio of 48.91% and lowest ratio of 42.19% in the year 2007/08 and 2006/07 respectively where as NCC has highest ratio of 91.78% and lowest ratio of 70.28% in the year2003/04and 2007/08 respectively. The mean ratio of

NCC is 98.01%, which is slightly lower than that of NABIL. Coefficient of variation of NABIL is lower than that of NCC.

(d) Investment on Government Securities to Total Working Fund Ratio

The main purpose of this ratio is to examine that portion of commercial banks total working fund that has been invested into different government securities. This ratio is calculated by dividing investment on government securities by total working fund.

$$\textit{Invt. on Govt. Securities to Total Working Fund} = \frac{TotalInvestmentonGovt.Securities}{TotalWorkingFund}$$

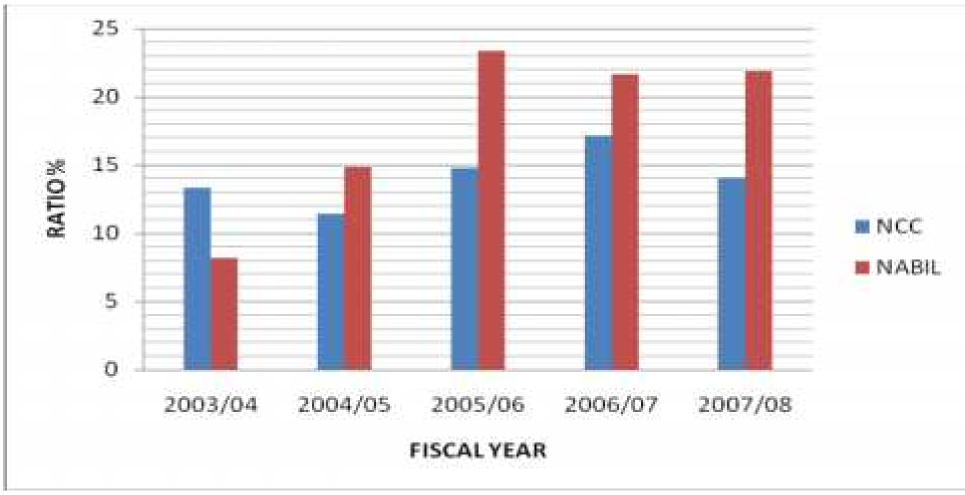
Table: 4.7
Investment on Govt. Securities to Total Working Fund Ratio

Year	**Ratio (%)**	
	NCC	**NABIL**
2003/04	13.32	8.21
2004/05	11.41	14.88
2005/06	14.74	23.37
2006/07	17.12	21.67
2007/08	14.02	21.93
Mean ($\overline{X}$)	**12.26**	**18.01**
S.D.(±)	**3.83**	**5.72**
C.V.	**31.20**	**31.76**

Source: Appendix-2

Figure: 4.7

Investment on Government Securities to Total Working Fund Ratio



Above analysis shows the investment on government securities to total working fund ratio in fluctuating trend. NABIL has 23.37%, the highest ratio in the year 2005/06 and 8.21% the lowest ratio in the year 2003/04. NABIL has higher mean ratio than that of NCC (i.e.18.01%>12.26%). NCC has lower standard deviation and coefficient of variation than that of NABIL.

(e) Investment on Shares and Debentures to Total Working Fund Ratio

The main purpose of this ratio is to examine that portion of commercial banks total working fund that has been invested into investment on share and debentures. This ratio is calculated by dividing investment on share and debenture by total working fund.

$$Investment\ on\ Shares\ and\ Debenture\ to\ TWF\ Ratio = \frac{Inv.onSharesandDebentures}{TotalWorkingFund}$$

Table: 4.8

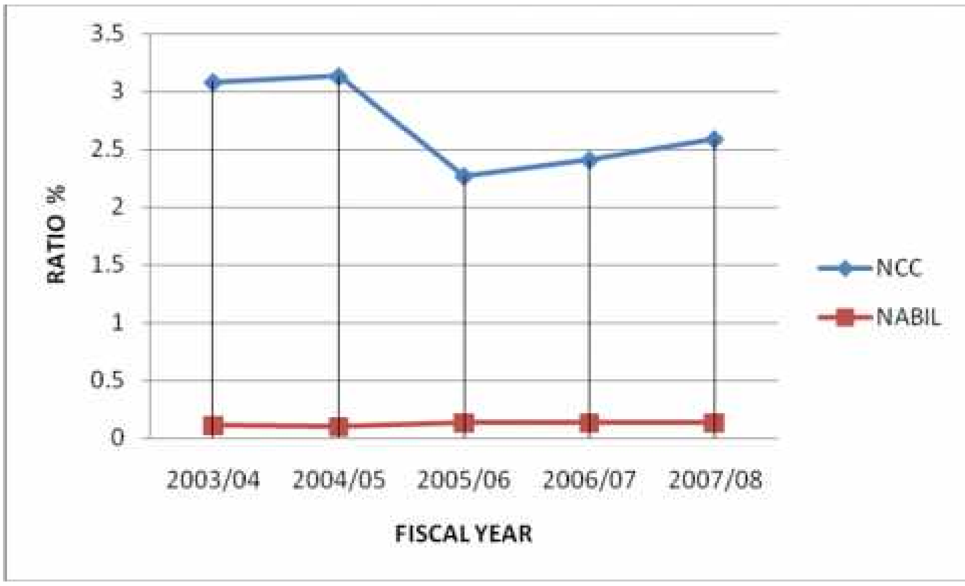
Investment on Shares and Debentures to Total Working Fund Ratio

Year	Ratio (%)	
	NCC	NABIL
2003/04	3.08	0.11
2004/05	3.13	0.10
2005/06	2.27	0.13
2006/07	2.41	0.13
2007/08	2.59	0.13
Mean ($\overline{X}$)	**2.7**	**0.12**
S.D.(±)	**0.35**	**.013**
C.V.	**12.96**	**10.83**

Source: Appendix-2

Figure: 4.8

Investment on Shares and Debentures to Total Working Fund Ratio



Comparatively, NCC has the greater volume of investment than that of NABIL in average (i.e. 2.7%>0.12%). Both banks followed a fluctuating trend in investing shares and debentures from total working funds. NABIL has lower standard deviation and coefficient of variation than that of NCC.

4.1.3 Profitability Ratios

(a) Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank on its deposit mobilized on loan and advances higher the ratio greater will be the return and vice versa. It is calculated as follow:

$$\text{Return on Loan and Advances Ratio} = \frac{Net\ Profit / Loss}{Loan and Advances}$$

Table: 4.9

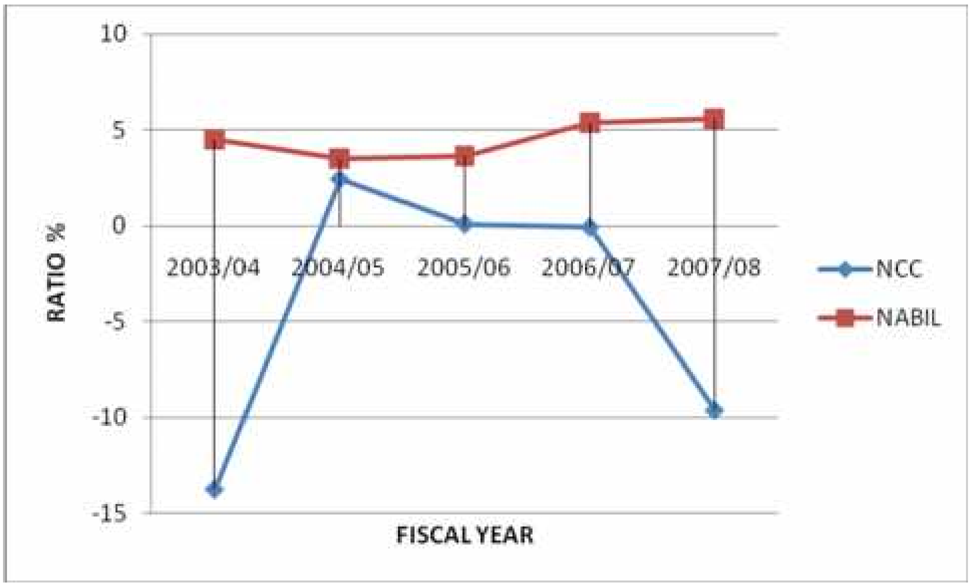
Return on Loan and Advances Ratio

Year	Ratio (%)	
	NCC	NABIL
2003/04	-13.8	4.49
2004/05	2.41	3.50
2005/06	0.07	3.65
2006/07	-0.09	5.37
2007/08	-9.66	5.56
Mean ($\overline{X}$)	**-4.21**	**4.51**
S.D.(±)	**6.34**	**084**
C.V.	**-150.59**	**18.63**

Source: Appendix-2

Figure: 4.9

Return on Loan and Advances Ratio



From the analysis, NABIL has the highest ratio of 5.56% in the year 2007/08 and lowest ratio of 3. 5% in the year 2004/05 where as NCC has the highest ratio of 2.41% in the year 2004/05 and lowest ratio of -13.13% in the year 2003/04. NABIL has highest mean ratio than that of NCC (i.e. 4.51%>-4.21%). Coefficient of variation of NABIL is more variable than that of NCC (i.e.18.63%>-150.59%).

(b) **Total Interest Earned to Total Working Fund Ratio**

This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. It is calculated as follow:

$$\textit{Total Interest Earned to Total Working Funds Ratio} = \frac{TotalInterestEarned}{TotalWorkingFund}$$

Table: 4.10

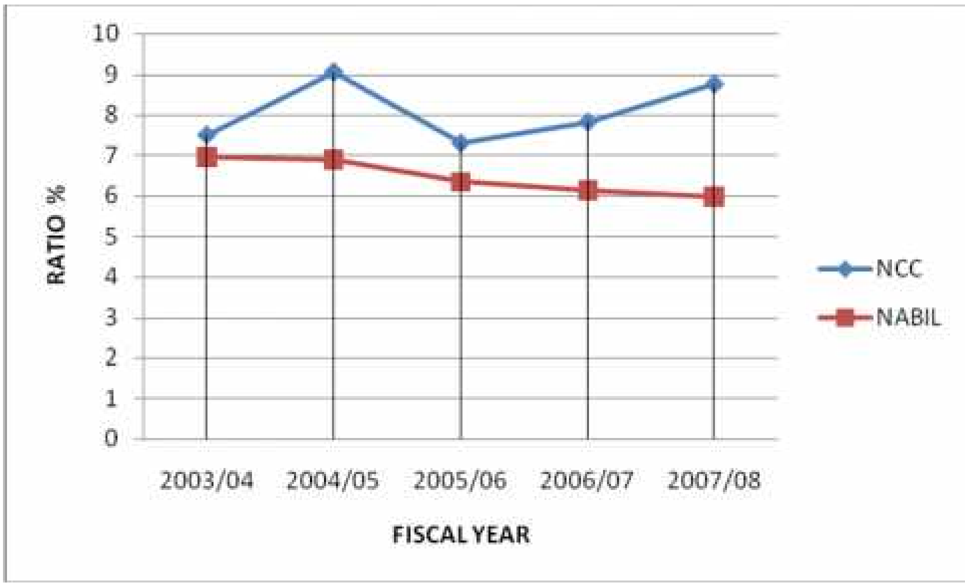
Total Interest Earned to Total Working Fund Ratio

Year	**Ratio (%)**	
	NCC	**NABIL**
2003/04	7.51	6.97
2004/05	9.05	6.90
2005/06	7.31	6.35
2006/07	7.83	6.15
2007/08	8.76	5.98
Mean($\overline{X}$)	**8.09**	**6.47**
S.D.(±)	**0.69**	**0.39**
C.V.	**8.53**	**6.03**

Source: Appendix-2

Figure: 4.10

Total Interest Earned to Total Working Fund Ratio



The above table shows that NCC has highest ratio of 9.05% in the year 2004/05 and NABIL has slightly lower ratio i.e. 5.98% in the same year. Both banks have decreasing trend of interest earned to total working fund ratio. The mean ratio of NCC is slightly lower than that of NABIL. The coefficient of variation of NABIL bank lower than NCC bank.

4.1.4 Measurement of Risk

For this study, following risk ratios are used to analyze and interpret the financial data and investment policy.

(a) Liquidity Risk Ratio

Liquidity risk means its liquidity need for deposits. The ratio is calculated by dividing cash and bank balance by total deposits.

Liquidity Risk Ratio = $\frac{CashandBankBalance}{TotalDeposit}$

Table: 4.11

Liquidity Risk Ratio

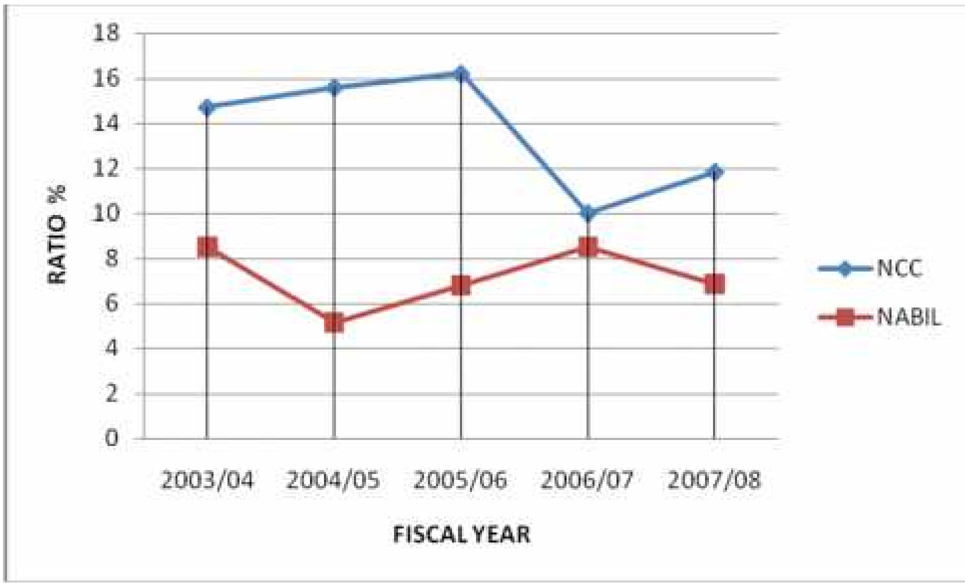
Year	Ratio (%)	
	NCC	NABIL
2003/04	14.72	8.52
2004/05	15.61	5.13
2005/06	16.21	6.78
2006/07	9.99	8.51
2007/08	11.84	6.87

Source: Appendix -3

The above analysis shows that NCC has the highest cash and bank balance to total deposits ratio of 16.21% in the year 2005/06 and lowest ratio of 9.99% in the year 2006/07, whereas NABIL has highest ratio of 8.52% in the year 2003/04 and lowest ratio of 5.13% in the year 2004/05.

Figure: 4.11

Liquidity Risk Ratio



(b) Credit Risk Ratio

In general, credit risk ratio shows the proportion of non-performing assets in the total investment plus loan and advances of a bank. It is computed as,

$$\text{Credit Risk Ratio} = \frac{TotalInvestment \, \Gamma \, TotalloanandAdvances}{TotalAssets}$$

Table: 4.12

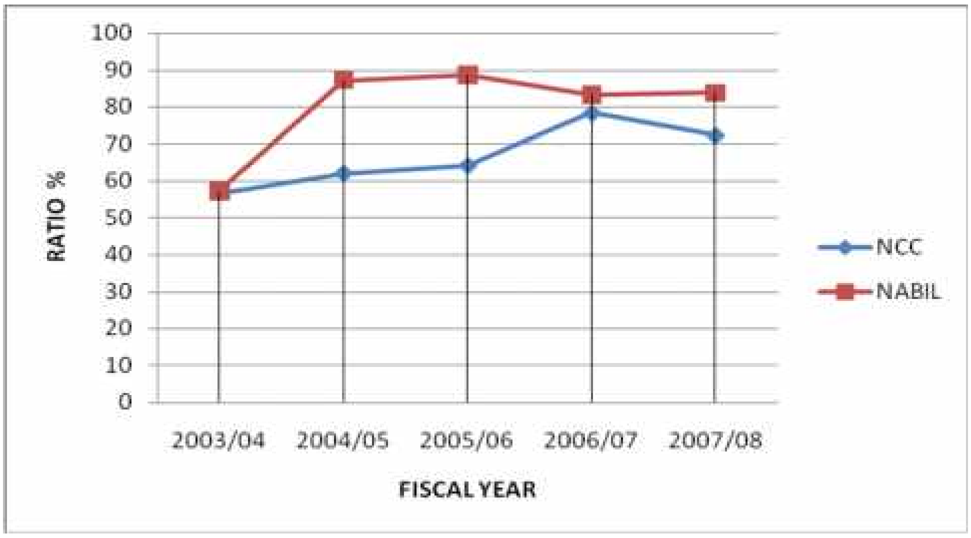
Credit Risk Ratio

Year	Ratio (%)	
	NCC	**NABIL**
2003/04	56.67	57.14
2004/05	62.02	87.26
2005/06	64.13	88.70
2006/07	78.34	83.24
2007/08	72.24	83.76
Mean($\overline{X}$)	**66.68**	**73.64**
S.D.(±)	**7.68**	**14.10**
C.V.	**11.52**	**19.15**

Source: Appendix -3

Figure: 4.12

Credit Risk Ratio



The above analysis shows that NCC and NABIL have the credit risk ratio in fluctuating trend. NCC has highest and lowest ratio of 78.34% and 56.76% in the year 2006/07 and 2003/04 and NABIL has the highest and lowest ratio of 88.70% and 57.14% in the year 2005/06 and 2003/04respectively. The mean ratio of NCC is lower than that of NABIL (i.e.66.64%<73.64%). NABIL has the higher coefficient of variation than that of NCC (i.e. 11.52%>19.15%).

4.1.5 Growth Ratios

Growth ratio denotes that how well the banks are preserving their economic or financial position. To calculate, check and analyze the expansion and growth of the selected bank the following ratios are calculated:

(a) Growth Ratio of Total Deposits

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} | 100$$

Table: 4.13

Growth Ratio of Total Deposits

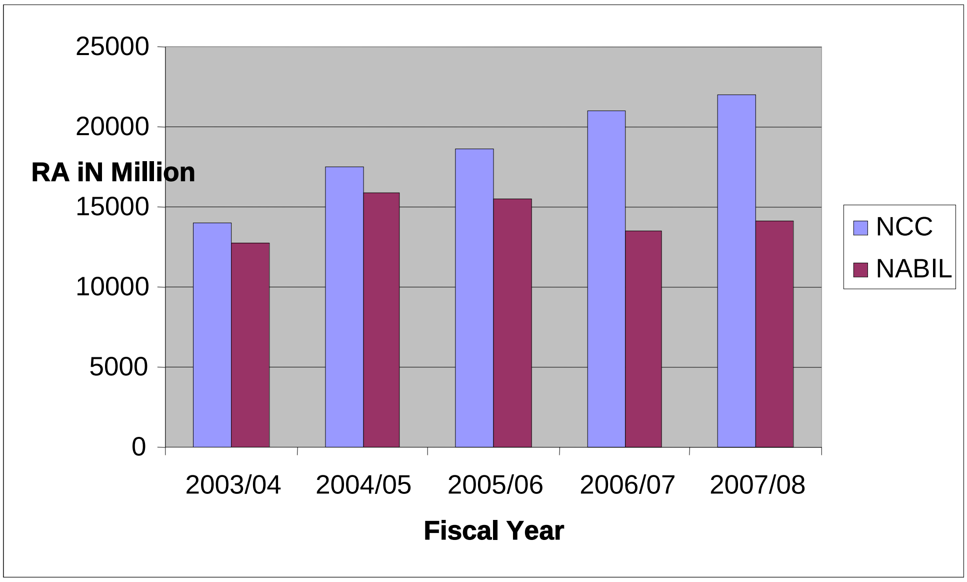
(Rs. in million)

Bank	**Year (Total Deposits)**						**Growth Rate %**
		2003/04	**2004/05**	**2005/06**	**2006/07**	**2007/08**	
NCC		14043.10	17532.40	18619.3	21007.3	22010.3	**19.09**
NABIL		12779.51	15839.01	15506.44	13447.65	14119.03	**8.50**

Source: Appendix -4

Figure: 4.13

Growth Ratio of Total Deposits



The above analysis shows that NCC has increasing trend and NABIL has fluctuating trend of total deposits. The growth ratio of NCC and NABIL are 19.09% and 8.50% respectively. The growth ratio of NABIL seems to be lower than that of NCC.

(b) Growth Ratio of Loan and Advances

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value} - \text{Beginning Values}}{\text{Beginning Value}} \times 100$$

Table: 4.14

Growth Ratio of Loan and Advances

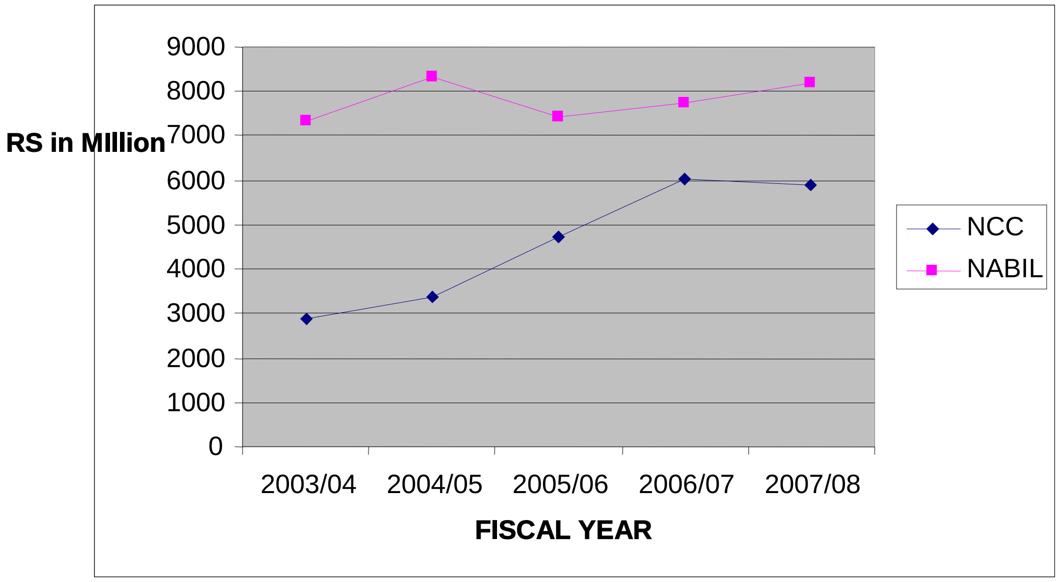
(Rs. in million)

Bank	Year (Loan and Advances)					Growth Rate %
	2003/04	2004/05	2005/06	2006/07	2007/08	
NCC	2878.29	3396.41	4717.30	6011.90	5899.16	19.65
NABIL	7334.76	8324.44	7437.90	7755.95	8189.99	**7.94**

Source: Appendix -4

Figure: 4.14

Growth Ratio of Loan and Advances



The above analysis shows that NC has higher growth rate than that of NABIL (i.e. 19.65 %>7.94%). NCC has increasing trend and NABIL has fluctuating trend of growth rate of loans and advances.

(c) Growth Ratio of Total Investment

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value} - \text{Beginning Values}}{\text{Beginning Value}} | 100$$

Table: 4.15

Growth Ratio of Total Investment

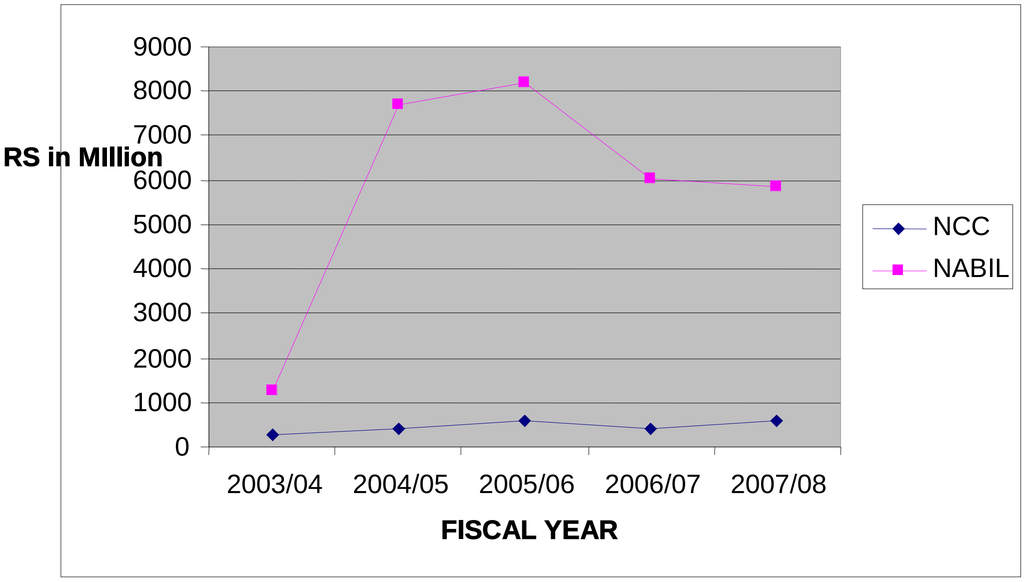
(Rs. in million)

Bank	Year (Total Investment)					Growth Rate %
	2003/04	**2004/05**	**2005/06**	**2006/07**	**2007/08**	
NCC	283.23	411.83	573.98	400.34	591.64	20.22
NABIL	1249.94	7703.31	8198.51	6031.17	5836.07	**36.05**

Source: Appendix -4

Figure: 4.15

Growth Ratio of Total Investment



The growth rate of total investment of NABIL seems to be lower than that of NCC i.e.

36.05% >22.22%. NABIL has fluctuating trend but NCC has increasing trend of growth ratio of investment.

(d) Growth Ratio of Net Profit

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} | 100$$

Table: 4.16

Growth Ratio of Net Profit

(Rs. in million)

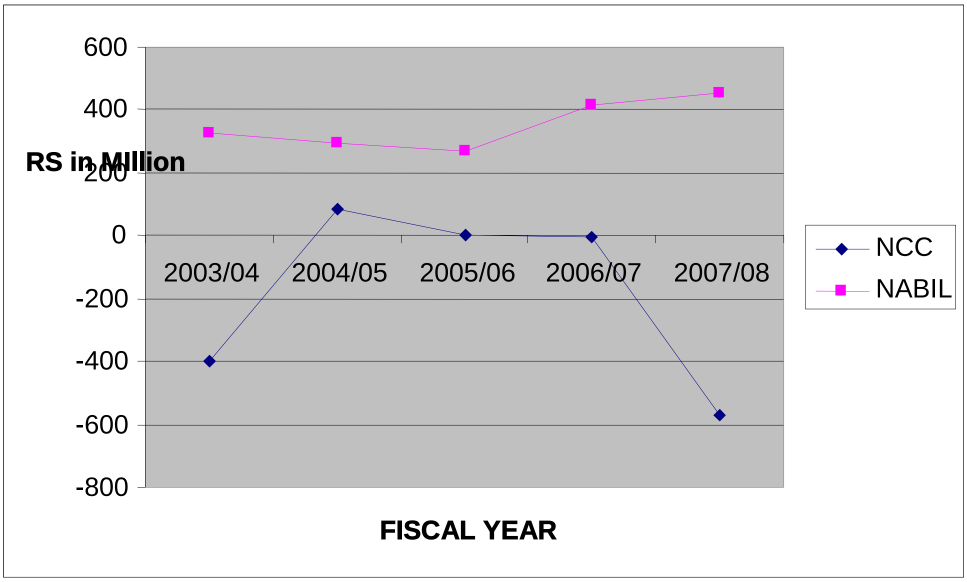
Bank	Year (Net Profit)					Growth Rate %
	2003/04	**2004/05**	**2005/06**	**2006/07**	**2007/08**	
NCC	(397.17)	81.80	3.41	(5.16)	(569.74)	(9.44)
NABIL	329.12	291.37	271.63	416.25	455.31	**17.67**

Source: Appendix -4

From above table we can conclude that NABIL has growth rate of 17.67% and NCC has the growth rate of (9.44)%. It seems that NABIL has higher growth rate than that of NCC. Both banks followed a fluctuating trend on the growth ratio of net profit.

Figure: 4.16

Growth Ratio of Net Profit



4.2 Relationship Between Total Deposits and Loans and Advances

The following table describes the relationship between total deposits and loan and advances of NCC and NABIL with comparatively under five-year period. In this case, total deposits are independent variable say (X) and loan and advances is dependent variable say (Y).

Table: 4.16

Relationship Between Total Deposits and Loans and Advances

Name of Bank	Base of Evaluation			
	r	**R^2**	**P.E.**	**6 x P.E.**
NCC	0.97	.941	0.02	0.12
NABIL	0.930	0.866	0.034	0.20

Source: Appendix -5

From the above table we can find that the coefficient of correlation between deposits and loan and advances of NCC and NABIL are 0.97 and 0.930 respectively. This shows the positive relationship between these two variables i.e. loan and advances and deposits of both banks. By considering coefficient of determination (R^2), the value of R^2 is 0..941 incase of NCC and 0.866 incase of NABIL.

The value of R^2 of NCC is 0..941 which means 94.1% of loan and advances decision is determined by deposit and only 6.9% loan and advances depend upon other variables. The value of R^2 of NABIL is 0.866, which means that 86.60% of loan and advances is determined by deposit and only 13.40% loan and advances depend upon other variables.

In view of the probable error of NCC and NABIL, the value of R^2 is less than the 6 times of P.E. (i.e. 0.94>0.012, 0.866>0.20) which indicates there is significant relationship between deposits and loan and advances.

4.3Trend Analysis

4.3.1 Trend Analysis of Total Investment to Total Deposits Ratio

The heading analyze the trend of total investment to total deposits ratio of NCC and NABIL with comparatively under five years study period and projects the trend of coming five years. The following table describes the trend values of total investment to total deposits ratio of NCC in comparison to NABIL for twelve years.

Table: 4.17

Trend Values of Total Investment to Total Deposits Ratio of NCC and NABIL

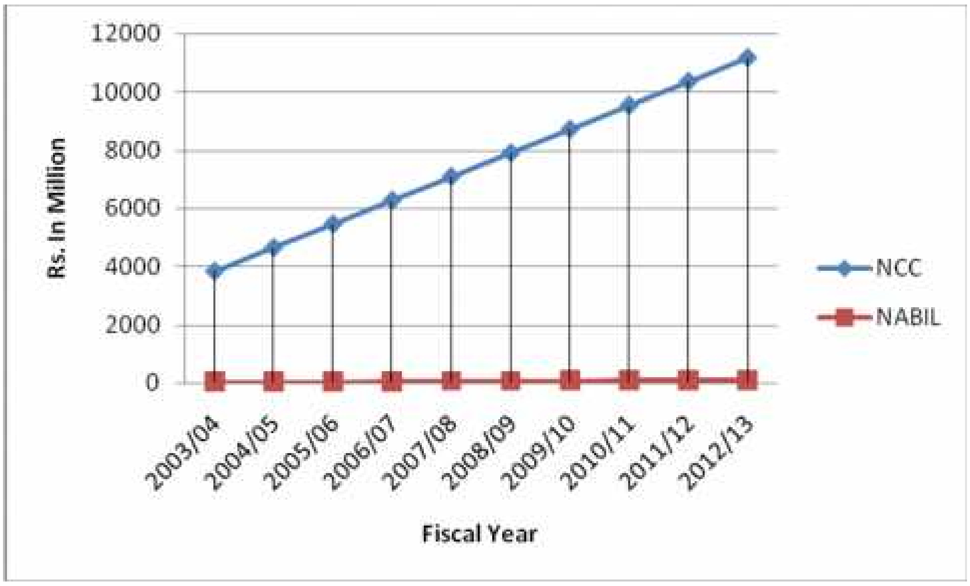
Year	Bank (Trend Values)	
	NCC	NABIL
2003/04	3816.64	18.05
2004/05	4632.45	24.98
2005/06	5448.26	31.91
2006/07	6264.07	38.84
2007/08	7079.88	45.77
2008/09	7895.69	52.70
2009/10	8711.50	59.63
2010/11	9527.31	66.56
2011/12	10343.12	73.49
2012/13	11158.93	80.42

Source: Appendix-6

From the above comparative table of trend value, it seems that the total investment of total deposits ratio of both banks is in increasing trend. Other thing remaining the same, the ratio of total investment to total deposits of NCC and NABIL will be 87.89 and 87.35 respectively in the year ended 2013.

Figure: 4.17

Trend Values of Total Investment to Total Deposits Ratio of NCC and NABIL



4.3.2 Trend Analysis of Loan and Advances to Total Deposits Ratio

In this topic an effort has been made to analyze the trend of loan and advances to total deposits ratio of NCC and NABIL with comparatively of seven years study period and projection of next five years. The following table describes the trend values of loan and advances to total deposits ratio of NCC and NABIL.

Table: 4.18

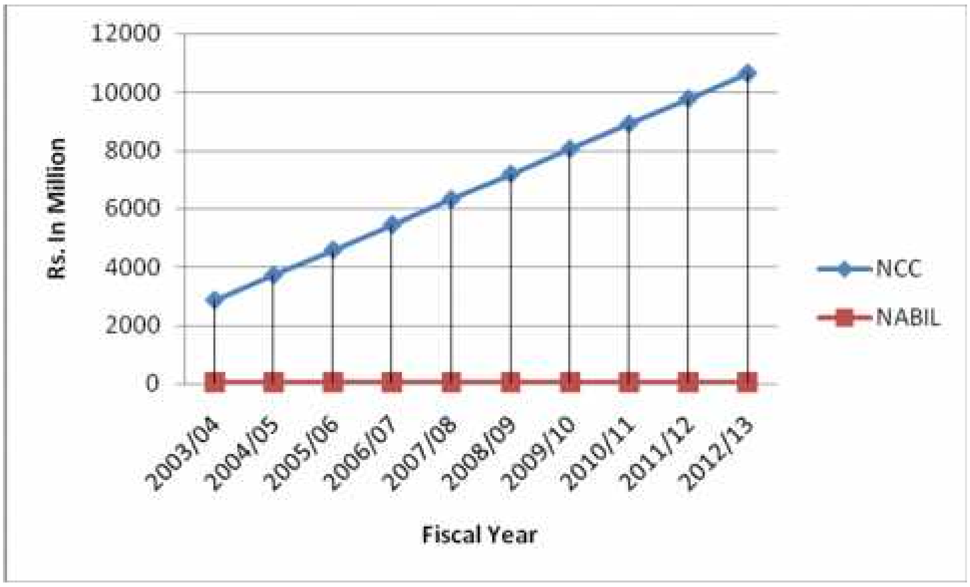
Trend Values of Loan and Advances to Total Deposits Ratio of NCC and NABIL

Year	Bank (Trend Values)	
	NCC	NABIL
2003/04	2849.28	49.64
2004/05	3715.00	48.86
2005/06	4580.72	48.08
2006/07	5446.44	47.30
2007/08	6312.16	46.52
2008/09	7177.88	45.74
2009/10	8043.60	44.96
2010/11	8909.32	44.18
2011/12	9775.04	43.40
2012/13	10640.76	42.62

Source: Appendix-7

From above table it has been found that the loan and advances to total deposits ratio of NCC and NABIL are in decreasing trend. Other things remaining constant, the loan and advances to total deposits of NABIL will be 42.62, where as NCC will be 10640.76 respectively in the year ended 2011.

Figure: 4.18
Trend Values of Loan and Advances to Total Deposits Ratio of NCC and NABIL



4.4 Analysis of Primary Data

To evaluate the management view relating to the fund mobilization, a set of questionnaire was used which contains seven questions relating to fund mobilization aspect of the banks. The responds are regarded as the representative of the management among majority who hold higher position in their firm. The qualitative aspects are examined by distributing questionnaires to 25 financial executives, employees and investors. The number of representative for the queries has differed due to the differentiation regarding the formation of the executive. The result of the questionnaire survey is presented in bellow:

Knowledge with investors about fund mobilization policy

Table: 4.19

Knowledge with investors about fund mobilization policy adopted by commercial Banks

Responses	No. of respondents	Percentage
Yes	-	-
No	25	100
Total	25	100

Source: Field Survey, 2008

In context to the knowledge of investment about the fund mobilization policy adopted by commercial banks, most of the respondents opined that they have not adequate knowledge about fund mobilization policy adopted by commercial banks.

Reason for not interest of investors in fund mobilization policy

Table: 4.20

Reason for not interest of investors in fund mobilization policy

Responses	No. of respondents	Percentage
Passive investment strategy	21	84
Mismanagement	4	16
Total	25	100

Source: Field Survey, 2008

In relation to the reasons for not so interested in fund mobilization policy by the investors. Most of the respondent felt that investors are not interested to fund mobilization policy because of passive investment strategy and mismanagement. Majority of the respondents (84%) told ‘passive investment strategy’ and the minority of the respondents (16%) told ‘mismanagement’. Through the classification of the views of respondents, the result generated as shown in above table.

Indication the level of risk in investing in current situation

Table: 4.21

Indication the level of risk in investing in current situation

Responses	No. of respondents	Percentage
High	5	20
Moderate	16	64
Less	4	16
Total	25	100

Source: Field Survey, 2008

With respect to the indication to find out the level of risk in investing in current situation. The options were: high, moderate, less, and no risk. Most of the executives indicated that the level of risk is moderate but investors indicate the level of risk is high. There are few respondents who said that there is less risk. Regarding this query, the results drown from the respondents' views were as shown in above table. The majority of the respondents (64%) gave the first important to moderate; the second (20%) is to indicate high and remaining (16%) told less risk.

Sectors of investment that commercial banks invest their fund

Table: 4.22

Sectors of investment that commercial banks invest the fund collected through deposits

Responses	No. of respondents	Percentage
Large scale industry	16	64
Manufacturing companies	5	20
Trade and commerce	4	16
Total	25	100

Source: Field Survey, 2008

In context to the about the sectors of investment that commercial banks should invest the fund collected through deposits. Regarding this query, the results from the respondents' views were as shown in above table. The majority of the respondents (64%) gave large scale industry; the second (20%) is to indicate manufacturing companies and remaining (16%) told trade and commerce.

Priority to give investment to the rural area of the country

Table: 4.23

Priority to give investment to the rural area of the country

Responses	No. of respondents	Percentage
Yes	15	60
No	10	40
Total	25	100

Source: Field Survey, 2008

With respect to necessary to give investment priority to the rural area of the country, 60% of the respondents felt that it is necessary and 40% of the respondents stated that it is not to give investment priority to the rural area of the country. Most of financial executive and investors said that it is necessary to give investment priority in rural area of country.

Reason for increasing minimum threshold balance and reduction of interest rate on the client's deposits

Table: 4.24

Reason for increasing the minimum threshold balance and reduction of interest rate on the client's deposits

Responses	No. of respondents	Percentage
Don't have enough investment opportunities	14	56
Already have enough deposits or collections	11	44
Total	25	100

Source: Field Survey, 2008

In respect to the reason for increasing the minimum threshold balance and in the other hand reduction of interest rate on the client's deposits. 56% of the respondents have told that they don't have enough investment opportunities and 44% of the respondents told that they already have enough deposits or collections. In response to question 'Reason for increasing minimum threshold balance and reducing the interest rate on the client's deposits' most of respondent said that they do not have enough investment opportunity.

Reasons behind for not providing banking facilities to the rural areas

Table: 4.25

Reasons behind for not providing banking facilities to the rural areas

Responses	No. of respondents	Percentage
Don't want to take risks	11	44
They are profit oriented only	14	56
Total	25	100

Source: Field Survey, 2008

With respect to reasons behind for not providing banking facilities to the rural areas, 60% of the respondents felt that they don't want to take risks and 40% of the respondents stated that they are profit oriented. Most of the respondents thought that the reason behind for not providing banking facilities to the rural areas was they don't want to take risk. Some investors thought that banks are profit oriented only and in rural areas profit generating is less in comparison to urban areas.

4.5 Major Findings of the Study

From the analysis of the data collected from various sources following findings have been made.

1) The mean ratio of cash and bank balance to total deposits of NABIL is lower than NCC. It means the liquidity position of NABIL is lower than NCC. It shows the lower position regarding the meeting of demand of its customer on their deposit at any time than NCC. The ratio of NCC is more consistent and that of NABIL is less consistent.
2) The average study of cash and bank balance to current assets ratio of NCC is higher than NABIL. It shows that NABIL has taken more risk to meet the daily requirement of its customer's deposit than NCC. The ratio of NCC is more consistent and NABIL has less consistent ratio.
3) NABIL has invested more portions of current assets on government securities than NCC according to average study. It means NABIL is more sensitive in investment in productive sector than NCC. Analysis shows that investment on government securities of NCC is more consistent and NABIL has less consistent ratio.
4) The mean ratio of loan and advances to total deposits of NCC is lower than that of NABIL. The ratio of NCC is more consistent and NABIL has less consistent ratio.
5) NABIL has mobilized its collected deposits on investment better than that of NCC The ratio of NCC is less consistent NABIL has more consistent ratio.
6) The loan and advances to total working fund ratio describes that NABIL position is better than NCC. The variability in ratio of NCC is slightly higher than that of NABIL.
7) The mean ratio of investment on government securities to total working fund of NABIL is higher than that of NCC. NABIL seems more successful to invest its working fund in government securities than NCC. The variability in the ratio of NCC is more consistent than that of NABIL.
8) The mean ratio of investment on shares and debentures to total working fund of NCC seems slightly weaker than that of NABIL NABIL has more consistent ratio than that of NCC.
9) From the average study of return on loan and advances, NABIL seems more successful to earn profit on loan and advances than NCC. The mean ratio of NABIL is higher than NCC. The variability in the ratio of NABIL is less consistent and NCC is more consistent.
10) Due to higher mean ratio of return on working funds of NABIL, it seems more successful in earning profit on total assets than NCC. The variability in the ratio of NABIL is less consistent and NCC is more consistent.

11) NABIL has slightly higher mean ratio than NCC to earn interest on total working fund. The variability in the ratio of NABIL is more consistent and NCC is less consistent.
12) The mean ratio of total interest paid to total working fund of NCC is higher than NABIL. So, we can say that NABIL is in better condition from interest expenses payment point of view. The variability in the ratio of NABIL is more consistent and NCC is less consistent.
13) The mean ratio of liquidity risk of NCC is higher than NABIL. Degree of risk and variability of risk is lower in NCC in comparison to NABIL. It seems liquidity risk ratio of NCC is more consistent than that of NABIL.
14) In case of credit risk ratio, NCC has the lower risk than NABIL. The variability in the ratio of NABIL is slightly lower than NCC.
15) The growth ratio of deposit of NABIL seems too lower than that of NCC. The growth rate of NABIL is only 8.50% but NCC has 19.09% growth rate.
16) From the analysis of growth ratio of loan and advances, NABIL seems too weak in increasing loan and advances than that of NCC. The growth rate of loan and advances of NABIL is only 7.94%, which is lower than that of NCC.
17) NABIL seems weak in increasing total investment in comparison to NCC. The growth rate of NABIL is 36.05% but NCC is 46.83%.
18) The yearly growth rate of net profit of NABIL is better in comparison to NCC. NCC has the growth rate of 11.87% and NABIL has 17.67%.
19) Capital fund of NABIL has been found significantly higher than NCC. NCC has higher amount of deposit than that of NABIL. NCC has been borrowing low proportion in comparison to NABIL. NABIL seems to be more successful in generating funds from other sources.
20) NCC has maintained high liquid funds than that of NABIL. NCC seems to be more successful to make investment in different sectors in comparison to NABIL. NCC provides more funds as loan and advances than that of NABIL NABIL is comparatively able to realize higher amount of interest accrued than that of NCC. NABIL seems to have allocating more funds in other assets.
21) Correlation coefficient between deposit and total investment of NCC is higher than NABIL. It indicates that NCC is successfully mobilizing its deposits as investment. There is significant relationship between correlation coefficient of deposits and total investment of NABIL.
22) NCC has the higher degree of correlation coefficient between deposit and loan and advances than NABIL. It states that NCC is in better position in the mobilization of deposits as loan and advances in comparison to NABIL. There is significant relationship between correlation of coefficient of deposit and loan and advances of NCC and NABIL.

23) The total deposits to total investment ratio of NCC and NABIL are in increasing trend. The trend value of NABIL is higher than NCC in the year 20011. After the year 20011, NABIL has slightly lower trend value. It indicates that NABIL is more successful to utilize its deposit in investment.

24) The trend values of the both banks are in decreasing trend but NCC has higher trend value than NABIL. Loan and advances to total deposits ratio of NCC is comparatively better than NABIL although both has decreasing trend.

25) There is significant difference between mean ratios of loan and advances to total deposits of NCC and NABIL.

26) There is no significant difference between mean ratios of total investment to total deposit of NCC and NABIL.

27) Empirical study of the customer's views regarding the adopted fund mobilization policy of concerned banks has been carried out. Most of joint venture banks have focused their banking service especially to huge clients such as multinational companies, large scale industries, manufactured companies and exporter of garments and carpets.

28) Most of the financial executives and investors felt that Nepalese investors do not have knowledge about fund mobilization policy. Most of the respondent felt that investors are not interested to fund mobilization policy because of passive investment strategy and not proper management. Most of the executives indicated that the level of risk is moderate but investors indicate the level of risk is high. There are few respondents who said that there is less risk. In response to questionnaire, most of respondent highlighted on shares, debentures and bond and government securities. Few of them suggested on loan and advances and other companies securities.

29)Most of financial executive and investors said that it is necessary to give investment priority in rural area of country. In response to question 'Reason for increasing minimum threshold balance and reducing the interest rate on the client's deposits' most of respondent said that they do not have enough investment opportunity.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nowadays there is very much competition in banking market but less opportunity to make investment. In this condition, joint venture bank can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is a very risky job. For a purposeful, safe, profitable investment bank most follows sound investment and fund mobilizing policy.

Generally fund mobilizing means cash flow in the different sectors at profit motive. In the broadest sense it means, the sacrifice of certain current value for future value or possibly uncertain value. This research focuses on the comparative study of fund mobilization of two joint venture banks; NCC and NABIL Bank Limited. The study focuses whether it is backward or forward in investing its fund efficiently in the business, industry and commerce. In this study NCC is compared with the Nabil Bank Limited on their future fund mobilizing activities by collecting seven years data from the year 2001/02 to 2007/08. Both banks have strong position in the market with new banking system and their activities.

Fund mobilizing is always related with risks and returns. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Fund mobilizing policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio.

The main objective of the study is to analyze the fund mobilizing policy adopted by NABIL and NCC Bank Limited. The specific objectives of the study are: a) To measure the relationship of total deposits with total investment, loan and advances and net profit, b) To evaluate the comparative growth ratio on total investment, loans and advances, total deposits and net profit of NCC and NABIL Bank Limited, c) To evaluate financial and investment efficiency, profitability and liquidity position of NCC and NABIL Bank Limited and d) To analyze the sources and uses of funds of these two banks.

To achieve the objectives of the study, descriptive an analytical research design has been used. Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of NCC and compare it with NABIL Bank Limited. The study is based on secondary data. So the descriptive and analytical research designs have been used. In this study only two joint venture banks have been taken as sample. All the commercial banks in Nepal are the population of the study. The sample taken from the commercial banks are Himalayan Bank Limited and Nabil Bank Ltd.

The research is based on secondary source of data. The data relating to the investment, deposit, loan and advances, assets and profit are directly obtained from the balance sheet and Profit and Loss A/C of the concerned bank's annual reports. Supplementary data and information are collected from number of institution and authoritative sources like Nepal Rastra Bank, Security Exchange Board, Nepal Stock Exchange Ltd., Ministry of Finance, Budget speech of different fiscal years, economic survey and National Planning Commission etc. To achieve the objectives of the study various financial and statistical tools have been used. After collecting the data from the different sources, it is analyzed by using financial tools and statistical tools. Findings are drawn by applying various financial tools namely liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio and sources and uses of funds. In the same way, statistical tools have been used namely mean, standard deviation, coefficient of variation, coefficient of correlation and least square method trend.

5.2 Conclusion

From the analysis of the liquidity position of NCC and NABIL, it can be concluded that the liquidity position of NABIL was not satisfactory whereas NCC is comparatively better than that of NABIL. NABIL has made enough investment in government securities than NCC. Liquidity ratio of NCC is more consistent than that of NABIL. In view of assets management side of two banks, it can be concluded that NCC is in weak position in mobilizing the collected deposits as loan and advances. NABIL is successful in mobilizing its collected deposits on investment better than that of NCC. NABIL has invested its funds efficiently on government securities and shares and debentures better than that of NCC. Assets management ratio of NCC is more consistent than that of NABIL.

NABIL profit earning capacity on loan and advances and working fund is better than that of NCC. The return ratio of NCC is more consistent than that of NABIL. NABIL seems stronger in earning interest from working fund than NCC and it has also been successful to collect its working fund from less expensive sources. Liquidity risk of NCC is higher than NABIL whereas it has maintained lower credit risk than that of NABIL.

From the growth ratio of total deposits, it can be concluded that NCC has more collection capacity than NABIL. Growth rate of NABIL on loan and advances is too weak in comparison to NCC. Growth rate of total investment of NABIL seems too weak than NCC whereas it has better position than that of NCC with respect to growth rate of net profit. NCC has been more successful to collect deposits than that of NABIL. NCC borrowing is an indication that the internal fund management of NCC is in satisfactory position towards meeting liquidity needs. NCC has more fund as liquid and is also been successful in making investment in different sectors better than that of NABIL. It also provides more fund as loan and advances.

Correlation coefficient between deposits and total investment and deposits and loan and advances of NCC and NABIL indicates the positive relationship or there is high degree of positive correlation. In most of the cases it has been found that loan and advances and investment decision depends upon other variables. From the calculation of probable error it can be concluded that the relationship between deposits and investment and loan and advances and deposits of both banks is significant.

By considering the trend values, NCC seem to be more successful to utilize its total collected deposits in investment than NCC. Deposit utilization trend in relation to loan and advances of NCC is proportionately better than NABIL. In case of testing of hypothesis it can be concluded that there is significant difference between mean ratio of loan and advances to total deposits of NCC and NABIL and there is no significant difference between mean ratio of total investment to total deposits of NCC and NABIL.

5.3 Recommendations

Based on above findings and conclusion the following recommendations have been made.

1) The ratio of cash and bank balance to total deposits and current assets of NCC is higher than NABIL. It means NCC has idle cash and bank balance. It may decrease over all profit of bank. So NCC is recommended to activate its idle cash and bank balance in productive sector. The affecting factors of liquidity position may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, Central Bank directives, capability of management, lending policies, strategic planning and funds flow situations.
2) Banks are suggested not to be surrounded and limited within the interest and status of big clients like multinational companies, manufacturer and exporter. The banks have to preserve the banking and saving habits of the low-income people of the kingdom. Because the main source of the collecting deposits of commercial banks are from public sector. It is also recommended to collect more funds as deposits

through different schemes from different level of public, through assortment of deposit schemes and facilities like housing schemes, education loan, vehicle loan, and deposit for house wife etc.

3) From the analysis, NCC has not invested more funds in government securities in comparison to NABIL. The bank has higher cash and bank balance than NABIL. Therefore, it is recommended to invest in government securities instead of keeping idle and is not considered good from profitability point of view. Investment on those securities issued by government is free of risk, highly liquid and highly saleable in the marketplace.
4) The recovery of the loan is most challenging job for banks. Increasing in non-performing assets leads to failure of commercial bank in recovery of loan. Therefore it has been recommended that NCC and NABIL should follow liberal lending policy when sanction of loan and advances have been done with adequate guarantee and should implement sound collection policy with proper identification of creditworthiness of customers, continual follow up and legal procedure if required. Therefore, the bank must be very careful while formulating credit policy. The credit policy is also associated with some legal procedure.
5) NCC is recommended to increase their investment on shares and debentures on different sectors to earn more interest and to increase their net profit.
6) Growth of commercial banks helps to develop the economic growth of the country. So the service of the commercial banks should be expanded all over the country through collection of idle saving from every territory of the country and should be utilized for income generation purpose. Government should encourage the commercial banks to expand banking service in rural areas and communities without making unfavorable impact in their profit.
7) Both banks should be careful in increasing profit of the bank to maintain the confidence of shareholders, depositors and all its customers. NCC profitability position is not better than that of NABIL. So, NCC is strongly recommended to utilize risky assets and shareholders fund to gain high amount of profit.
8) NRB has given directives to commercial banks to invest their certain percentage of investment in deprive and priority sector. Both banks have earned profit from profitable and private sector. So, they are recommended to strictly follow up the directives issued by NRB and should make investment on public utilities sector like health, sanitation, education, drinking water, agriculture etc.
9) Portfolio management is important for every investor. In each investment, risk is involved. The greater the variability of returns of those projects, the more will be riskier. So, it should be kept in mind while making investment, that project should be selected which will be low riskier and highly profitable. So, portfolio management helps the investors in making investment in different areas by

considering their risk factor. Portfolio management of bank assets means allocation of funds into different components of banking assets in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. So, portfolio condition of NCC and NABIL should be examined carefully from time to time. Banks should make continuous efforts to explore innovative, competitive and high yielding investment opportunities to optimize their investment portfolio.

10) The minimum bank balance and the amount needed to open an account in the banks are very high. So, lower level people and small depositors are very far from banking facilities providing by joint ventures banks. So, all the banks should open its doors to small depositors for promoting and mobilizing small depositors' funds

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Appendex-1

Cash and bank balance to current assets ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Cash &bank balance	546.09	670.26	970.39	662.70	783.96
Current assets	3130.09	3780.54	5296.47	6130.38	5448.32
Ratio(%)	17.45%	17.73%	18.32%	10.81%	14.39%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Cash &bank balance	1088.75	812.9	1051.82	1144.77	970.49
Current assets	14788.91	13161.68	13313.4	13868.3	14244.04
Ratio(%)	7.36	6.17	7.9	8.25	6.81

Cash and bank balance to total deposit ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Cash &bank balance	546.09	670.26	970.39	662.70	783.96
Total deposit	3708.97	4294.10	5987.70	6630.94	6619.58
Ratio(%)	14.72%	15.61%	16.21%	10%	11.84%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08

Cash &bank balance	1088.75	**812.9**	**1051.82**	**1144.77**	**970.49**
Total deposit	12779.51	15839.01	15506.44	13447.65	14119.03
Ratio(%)	8.52%	5.13%	6.78%	8.51%	6.87%

Investment on government securities to current assets ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Government securities	199.66	315.24	511.94	324.73	551.59
Current assets	3130.09	3780.54	5296.47	6130.38	5448.32
Ratio(%)	6.38%	8.34%	9.67%	5.30%	10.12%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Government securities	1233.82	2732.96	4120.29	3588.77	3672.63
Current assets	14788.91	13161.68	13313.4	13868.3	14244.04
Ratio(%)	8.34	20.76	30.94	25.87	25.78

Loan and advances to total deposit ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Loan and advances	2878.29	3396.41	4717.30	6011.90	5899.16

Total deposit	3708.97	4294.10	5987.70	6630.94	6619.58
Ratio (%)	77.60%	79.09%	78.78%	90.66%	89.12%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Loan and advances	7334.76	8324.44	7437.9	7755.95	8189.99
Total deposit	12779.51	15839.01	15506.44	13447.65	14119.03
Ratio (%)	57.39	52.55	47.96	57.67	58.01

Appendix -2

Total investment to total deposit ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Total investment	283.23	411.83	573.98	400.34	591.64
Total deposit	3708.97	4294.10	5987.70	6630.94	6619.58
Ratio(%)	7.64%	9.59%	9.59%	6.04%	8.94%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Total investment	1249.94	7703.31	8198.51	6031.17	5836.07
Total deposit	12779.51	15839.01	15506.44	13447.65	14119.03
Ratio(%)	9.78	48.64	52.87	44.85	41.33

Loan and advances to total working fund ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Loan and advances	2878.29	3396.41	4717.30	6011.90	5899.16
Total working fund	4095.18	4832.60	6660.78	6918.08	6427.70
Ratio (%)	70.28%	70.28%	70.82%	86.90%	91.78%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Loan and advances	7334.76	8324.44	7437.9	7755.95	8189.99
Total working fund	15024.2	18367.15	17629.25	16562.61	16745.61
Ratio (%)	48.82	45.32	42.19	46.83	48.91

Investment on government securities to total working fund ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Government securities	199.66	315.24	511.94	324.73	551.59
Total working fund	4095.18	4832.60	6660.78	6918.08	6427.70
Ratio (%)	13.32	11.41	14.74	17.12	14.02

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Government securities	1233.82	**2732.96**	**4120.29**	**3588.77**	**3672.63**
Total working fund	15024.2	18367.15	17629.25	16562.61	16745.61
Ratio (%)	8.21	14.88	23.37	21.67	21.93

Investment on shares and debenture to total working fund ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Shares and debentures	126.07	151.07	151.07	166.42	166.42
Total working fund	4095.18	4832.60	6660.78	6918.08	6427.70
Ratio (%)	3.08%	3.13%	2.27%	2.41%	2.59%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Shares and debentures	16.12	18.82	22.22	22.22	22.22
Total working fund	15024.2	18367.15	17629.25	16562.61	16745.61
Ratio (%)	0.11	0.10	0.13	0.13	0.13

Return on loan and advances ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Net Profit	(397.17)	81.80	3.41	(5.16)	(569.74)
Loan and advances	2878.29	3396.41	4717.30	6011.90	5899.16
Ratio (%)	(13.80%)	2.41%	0.07%	(0.09%)	(9.66%)

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Net Profit	329.12	291.37	271.63	416.25	455.31
Loan and advances	7334.76	8324.44	7437.9	7755.95	8189.99
Ratio (%)	4.49	3.5	3.65	5.37	5.56

Total interest earned on total working fund ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Total interest earned	307.71	437.18	486.83	541.85	562.78
Total working fund	4095.18	4832.60	6660.78	6918.08	6427.70
Ratio (%)	7.51%	9.05%	7.31%	7.83%	8.76%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Total interest earned	1047.03	1266.7	1120.18	1017.87	1001.62
Total working fund	15024.2	18367.15	17629.25	16562.61	16745.61
Ratio (%)	6.97	6.90	6.35	6.15	5.98

Appendix -3

Credit Risk ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Total loan and advances	2878.29	3396.41	4717.30	6011.90	5899.16
Total working fund	4095.18	4832.60	6660.78	6918.08	6427.70
Ratio (%)	70.28%	70.28%	70.82%	86.90%	91.78%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Total loan and advances	7334.76	8324.44	7437.9	7755.95	8189.99
Total working fund	15024.2	18367.15	17629.25	16562.61	16745.61
Ratio (%)	57.14	87.26	88.7	83.24	83.76

Liquidity risk ratio

NCC BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Cash and bank balance	546.09	670.26	970.39	662.70	783.96
Total deposit	3708.97	4294.10	5987.70	6630.94	6619.58

Ratio (%)	14.72%	15.61%	16.21%	9.99%	11.84%

NABIL BANK

Fiscal years	2003/04	2004/05	2005/06	2006/07	2007/08
Cash and bank balance	1088.75	812.9	1051.82	1144.77	970.49
Total deposit	12779.51	15839.01	15506.44	13447.65	14119.03
Ratio (%)	8.52	5.13	6.78	8.51	6.87

Appendex-4. Growth Ratios

Growth Ratios of loan and advances

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Growth

						Rate(%)
NCCB	2878.29	3396.41	4717.30	6011.90	5899.16	19.65
NABIL	7334.76	8324.44	7437.9	7755.95	8189.99	7.94

Growth rate can be calculated as follows:

Here,

D_n = total loans & advances in nth year

D_0 = total loans & advances in initial year

g= growth rate

We have,

$$D_n = D_0 (1+g)^n$$

$$D_{2007/08} = D_{2003/04}(1+g)^{5-1}$$

$$5899.16 = 2878.29(1+g)^4$$

$$1+g= 1.1965$$

$$g = 19.65$$

$$D_{2007/08} = D_{2003/04}(1+g)^{5-1}$$

$$8189.99 = 7334.76(1+g)^4$$

$$g = 7.94\ \%$$

Growth Ratios of total investment

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Growth Rate
NCCB	283.23	411.83	573.98	400.34	591.64	20.22
NABIL BANK	1249.94	7703.31	8198.51	6031.17	5836.07	36.05

Growth rate can be calculated as follows:

Here,

Dn = total investment in nth year

D_0 = total investment in initial year

g= gowth rate

We have,

$$Dn = D_0 (1+g)^n$$

$$D_{2007/08} = D_{2003/04}(1+g)^{5-1}$$

$$591.64 = 283.23(1+g)^4$$

$$1+g= \quad 1.2022$$

$$5836.07 = 1249.94(1+g)^4$$

Growth Ratios of net profit

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Growth Rate
NCCB	(397.17)	81.80	3.41	(5.16)	(569.74)	(9.44%)
NABIL BANK	329.12	291.37	271.63	416.25	455.31	17.67

Here,

Dn = Net profit in nth year

D_0 = Net profit in initial year

g= growth rate

We have,

$$Dn = D_0 (1+g)^n$$

$$D_{2007/08} = D_{2003/04}(1+g)^{5-1}$$

$$(397.17) = (569.74)(1+g)^{4}$$

$$g = (9.44\ \%)$$

$$455.31=329.12(1+g)^{4}$$

$$g = 17.67\%$$

Appendex-5

Coefficient of correlation between total deposit and loan and advances

NCC Bank

Fy	Deposit (X)	Loan and advances(Y)	**x= X -** $\overline{X}$	**y= Y -** $\overline{Y}$	xy
2003/04	3708.97	2878.29	-1739.29	-1702.32	2960828.153
2004/05	4294.10	3396.41	-1154.16	-1184.20	1366756.272
2005/06	5987.70	4717.30	539.44	136.69	73736.0536
2006/07	6630.94	6011.90	1182.68	1431.29	1692758.057
2007/08	6619.58	5899.16	1171.32	1318.55	1544443.986
	ϕx=27241.29	ϕy=22903.06			ϕxy=7638522.522

$$\overline{X} = \frac{X}{N} = \frac{27241.29}{5} = 5448.26 \qquad \pm x \; X \sqrt{\frac{ƒX \; Z \; \overline{X}A}{N}} \; X \; 1218.11$$

$$\overline{Y} = \frac{Y}{N} = \frac{22903.06}{5} = 4580.61 \qquad \pm y \; X \sqrt{\frac{ʃY \; Z \; \overline{Y} \; A}{N}} \; X \; 1273.27$$

$$r \; X \frac{xy}{n \pm x . \pm y} \qquad \text{P.Er.} = 0.6745 * \frac{1-r^2}{\sqrt{N}}$$

$$= \frac{7368522.522}{5*1218.11*1273.27} \qquad = 0.6745 \times \frac{0.0396}{2.236068}$$

$$r = 0.97 \qquad \therefore \text{P. Er.} = 0.02$$

$$6.\text{P.E.r} = 6*0.02$$

$$= 0.12$$

NABIL Bank

Fy	Deposit (X)	Loan and advances(Y)	XY	X^2	Y^2
2003/04	12779.51	7334.76	93734638.77	163315875.8	5379874.26
2004/05	15839.01	8324.44	131850888.4	250874237.8	69296301.31
2005/06	15506.44	7437.9	115335350.1	240449681.5	55322356.41
2006/07	13447.65	7755.95	104299301	180839290.5	60154760.4
2007/08	14119.03	8189.99	115634714.5	199347008.1	67075936.2
	ϕX=71691.64	ϕY=39043.04	ϕXY=560854892.8	$\sum X^2$=10348260.94	ϕY^2=305648058.60

Here

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

$$r = \frac{5\sum 560854892.5 - \sum 71691.61 \cdot \sum 39043.04}{\sqrt{\{5 \times 10348260.94 - 71691.64^2\}\{5 \times 305648058.6 - 39043.04^2\}}}$$

r=.093

$$P.Er. = 0.6745* \underline{1-r^2}$$

$$P.Er.06745*1-.093^2$$

.052

Appendix -6 Trend Analysis

Trend Analysis of Total Deposit (Rs. In million)

NCC Bank

Year (t)	Total deposit(y)	x=t-2005/06	x^2	xy	Yc =a+bx
2003/04	**3708.97**	-2	4	-7417.94	3816.64
2004/05	4294.10	-1	1	-4294.10	4632.45
2005/06	5987.70	0	0	0	5448.26
2006/07	6630.94	1	1	6630.94	6264.07

2007/08	6619.58	2	4	13239.16	7079.88
N=5	∑y=27241.29	∑x =0	$\sum x^2$=10	∑xy=8158.06	

We have,

N=5 ∑x =0, $\sum x^2$=10, ∑y=27241.29, ∑xy=8158.06

Since, ∑x =0, so $a \mathrm{X} \frac{Y}{N} = \frac{27241.29}{5} = 5448.26$ $b \mathrm{X} \frac{XY}{X^2} = \frac{8158.06}{10} = 815.81$

…Y= a + bx

=5448.26+815.81x

Trend values of total deposit of NCC BANK (2008/09-2012/13)

Year(t)	x	$y_{c\ =\ a+bx}$
2008/09	3	7895.69
2009/10	4	8711.50
2010/11	5	9527.31
2011/12	6	10343.12
2012/13	7	11158.93

The equation of the trend line is $Y_c \mathrm{X} a \Gamma bx$

Trend Analysis of loan and advances (Rs. In million)

NCC Bank

Year (t)	Loan and advances(y)	X=t-2005/06	X^2	xy	Yc =a+bx
2003/04	2878.29	-2	4	-5756.58	2849.28
2004/05	3396.41	1-	1	-3396.41	3715.00
2005/06	4717.30	0	0	0	4580.72
2006/07	6011.90	1	1	6011.90	5446.44
2007/08	5899.16	2	4	11798.32	6312.16

	$\sum y$=22903.60	$\sum x$ =0	$\sum x^2$=10	$\sum xy$=8657.23	

We have,

N=5 $\sum x$ =0, $\sum x^2$=10, $\sum y$=22903.60, $\sum xy$=8657.23

Since, $\sum x$ =0, so $a\ X \frac{Y}{N} = \frac{22903.60}{5} = 4580.72$ $b\ X \frac{XY}{X^2} = \frac{8657.23}{10} = 865.72$

…Y= a + bx

=4580.72+865.72x

Trend values of loan and advances of NCC BANK (2008/09-2012/13)

Year(t)	x	$y_{c = a+bx}$
2008/09	3	7177.88
2009/10	4	8043.60
2010/11	5	8909.32
2011/12	6	9775.04
2012/13	7	10640.76