

**ROLE OF COMMERCIAL BANKS FOR DEPOSIT
MOBILIZATION WITH REFERENCE TO
BANK OF KATHMANDU LIMITED
AND
NEPAL INVESTMENT BANK LIMITED**

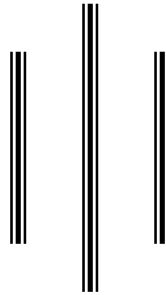
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Dharan, Nepal

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RECOMMENDATION

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**‘Role of Commercial Banks for Deposit Mobilization reference to
Bank of Katmandu Ltd. & Nepal Investment Bank Ltd.’**

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VIVA-VOCE SHEET

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I hereby declare that this thesis entitled to “**Role of commercial banks for Deposit Mobilization with reference to BOKL & NIBL**” and submitted to Dean, Faculty of Management, Tribhuvan University. This thesis was prepared as approved by Research Department, Faculty of Management. Mahendra Multiple Campus under the strict supervision and guidance of Mr. Ashok Kumar Jha, Associate Professor, Faculty of Management.

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ABBREVIATION

A.D.	= Anno- Domini
ATM	= Automatic Tailoring Machine
BOKL	= Bank of kathmandu
B.S.	= Bikram Sambat
C.V.	= Coefficient of Variation
etc.	= Et ceters
EPS	= Earning per Share
F/Y	= Fiscal Year
GDP	= Gross Domestic Product
HMG/N	= His Majesty Government, Nepal
i.e.	= That is
Ltd.	= Limited
NBL	= Nepal Bank of Limited
NEPSE	= Nepal Stock Exchange
NIBL	= Nepal Bank Limited
No.	= number
NRB	= Nepal Rastra Bank
P/E	= price earning
P.Er	= Probble Error
r	= Coefficient of Correlation
S.D.	= Standard Deviation
viz	= Namely
T.U.	= Tribhuvan University
\sum	= Summation
&	= And
>	= Greater than

CHAPTER-1

INTRODUCTION

1.1 Background of the Study

Banks play a significant role in the development of a country. Bank is a financial institution, which maintains the self-confidence of various segments of society and extends credit to the people. The financial institution is an indispensable part for the upliftment of a country. The financial institution is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stocks exchange & foreign exchange markets, mutual fund etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities and thereby developing society and the country as a whole. Thus, today the financial institutions have become the base for measuring the level of economic development of a country.

Nepal is one of the least developed countries of the world. Poverty has stood as a serious challenge to the country. The country is unable to fulfill the national requirement of the people. In such context, it is realized that without industrial development, it is impossible to have social and economic development. So for industrial and economic development, banks play the vital role.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of a country. Bank assists both the flow of goods and services from the producers to

the consumer and financial activities of the government. It also provides the country with a monetary system of making payment and also makes loan to maintain production in the economy.

Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of national output, income and employment solving the problem of inflation and balance of payments and making the economy free from the burden of foreign debts. Domestic capital formation helps in making a country self-sustainable. According to classical economists, one of the main factors, which helped capital formation, was the accumulation of profit made by the business community constituted the major part of savings of the community and that saving 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. It seems unquestionable that the insufficient capital accumulation is the most serious limiting factor in underdeveloped countries. In the view of many economists, capital occupies the central and strategic position in the process of economic development in an underdeveloped economy lies in a rapid expansion of the rate of its capital investment so that it attains a rate of growth of output which exceeds the rate of capital investment will the living standard begin to improve in a developing country. In developing countries, the rate of saving is quite low and existing institutions are half successful in mobilizing such savings as most people have incomes so low that vertically all current income must be spent in maintaining a subsistence level of consumption.

The development of the country is always measured by its economic development through economic indices. Therefore, every

country gives emphasis on the upliftment and prosperity of its economy. To accelerate the economic growth of a country, it depends on the saving and investment propensity of the people. But in the developing country like Nepal the saving capacity is very low and thus investment. Inadequate degree of capital formations is an important feature of developing countries. Insufficient saving made by the community is the main cause of inadequate capital. In this situation the financial institutions like bank can be the best medium to collect the scattered saving and utilize it to in a productive manner. The business in banking is one of the collecting funds from the community and extending credit for useful purpose.

Commercial banks are major financial institution, which occupy quite important place in the framework of every economy because they provide capital for the development of industry, trades and business and other resources deficit sectors by investing the saving collected as deposits. Besides, of this commercial banks render numerous services to their customer in view of facilitating their economic and social life. Commercial banks, by playing active roles have changed the economic structure of the world. Thus, commercial bank becomes the world heart of financial system.

Commercial banks have been also contributing a lot towards the promotion and expansion of both export and import trade. They provide both export and post-shipment of both export finance to exporters. They start their operation with automated system, which could easily attract the elite group of business community due to their prompt served modern management. In this way, commercial banks are successful to bring

foreign investment, promote and expand export, import trade, introduce new techniques and technologies.

Nowadays, there is less opportunity in banking sector to make investment because of competition. In this condition, commercial banks can take initiation in search of new opportunity. So that they can survive in the competitive market and earn profit. But fund mobilization is the very risk job. For a purposeful, safe, profitable investment banks must follow sound investment and fund mobilizing policy.

In recent time, many commercial banks are providing consumer financing facilities. They provide direct housing loan, home equity loan, vehicle loan, education loan, loan for household appliances etc. These all activities affect the cash flows, liquidity and profitability of the banks.

This study is basically related to analyze the effective role in liquidity mobilization of commercial banks in Nepal. The study has been done with special reference to Bank of Katmandu Limited (BOKL) and Nepal Investment Bank Limited (NIBL).

AN OVERVIEW OF SAMPLE BANKS

A. NEPAL INVESTMENT BANK LIMITED (NIBL)

Nepal investment Bank Ltd. (NIBL) previously Nepal Indosuez Bank Ltd. was established in 1985 A.D. as a joint venture between Nepalese and French partners. The French partner (holding 50% of capital) was a credit Agricole Indosuez, a subsidiary of one of the largest banking groups in the world. With the decision of Credit Agricole

Indosuez to divert, a group of companies comprising of bankers, professionals, industrialists and businessmen, in April 2002 A.D., acquired 50% of the holdings of Credit Agricole Indosuez in Nepal Indosuez Bank. The name of the bank was changed to Nepal Investment Bank Limited upon approval of the Bank's Annual General Meeting, Nepal Rastra Bank and company Registrar's office. At present, there is no foreign investment in it, all shares are owned by the Nepalese shareholders.

The Shareholder Structure comprises of:

- A group of companies holding 50% of the capital
- Rastriya Banijya Bank holding 15% of the capital
- Rastriya Bema Sansthan holding 15% of the capital
- The general public holding 20% of the capital

Nepal Investment Bank Ltd. is the proud recipient of Bank of the year Award in 2003 A.D. and 2005A.D. awarded by the 'London Based Financial Times' Group., The Banker bank of the year in 2008 A.D.

Nepal Investment Bank Ltd. is the first bank to receive an investment grade rating of (Nepal) A by the Indian Credit Rating Agency, an associate of Moody's Investors Service. The rating is based on good market position of NIBL in Nepal, its track record of growing its balance sheet while maintaining a stable net interest margin and earning profile and its experienced management team.

NIBL achieved relatively higher deposit growth of 41% and 36% in 2007-08. NIBL has the largest credit portfolio of Rs.36.2 billion among commercial banks in Nepal as of mid-July 2009 and has recorded a strong 4-year CAGR of 37.5% from Rs.10.1billion.

NIBL has delivered good and stable profitability and net interest margin over the years with low operating expenses. Regulatory capital adequacy ratio of 11.24% as of mid-July 2009, with a Tier capital ratio of 8.56% coupled with NPA of 0.58% as on mid-July 2009 and provision coverage of over 90% further demonstrates the sound health of NIBL.

NIBL has presence through throughout the country through its 32 branches and 60 ATMs (150 ATMs including consortium member AMTs). NIBL is the largest private sector bank in the country and has market share of about 8% in terms of deposit base and 10% of total advances as of mid-July 2009. NIBL reported a net profit of Rs. 0.9 billion in fiscal 2008-09 over as asset base of Rs. 53.0 billion as of mid-July.

B. BANK OF KATHMANDU LIMITED

Bank of Kathmandu limited (BOK) has today become a landmark in the Nepalese sector by among the few commercial banks which is entirely managed Nepalese professionals and owned by the genera public.

BOK started its operation in March 1995 with the objective to stimulate the Nepalese economy and it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve there, BOK has been focusing on its objectives right from the beginning. To highlight its few objectives

- To contribute the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas.

- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost.
- To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies.
- To contribute to the overall social development of Nepal.

To become significant contributor to the economic development of Nepal by distinguishing the bank as an efficient, competitive, safe and top quality financial institution BOK has set various missions on various investment and service sector.

Bank of Kathmandu is committed to delivering quality service to customer, generating good return to shareholder providing attractive incentives to employees and saving the community through stronger corporate social responsibility endeavor.

ORIGIN OF BANK

The bank which we have today is the product of long practice of human beings. However, it has been said that the banking practice was started before 2000 A.D. At the time some institution likes 'Ephesus' had started to do the monetary and financial activities. They used to provide the credit to the people, but these institutions were more religious than business in nature.

After 12th B.C. there was change in the banking practice because of increase mobility of the people, they started to do nations. The business activities started to increase as per the need of the society. In this course,

bank of Venice established in Italy in 1157 A.D. This bank had started as a public bank and was the first bank in the world. Subsequently Bank of Barcelona (1401A.D.), Bank of Genoa (1407A.D.), Bank of Amsterdam in 1609 A.D., the first bank in India was bank of Hindustan in 1770 A.D. etc. were established. In reality history of modern banking had started from the bank of England in 1694 A.D. But the modern joint stock banks were established in England only in 1833 A.D. The function of the bank expanded gradually as per the need of the society and the businessman. Later the banks were established in other part of the world. The establishment of the banks and financial institutions has been one of the important professions to the investors.

HISTORY OF BANK IN NEPAL

The coin “Manak” and “Gunank” during the reign of the king Mandev and the king Gun kam Dev were in used. Historically, we find the evidence of minted coin of Amshuverma in 7th century and later the coin of Jishnu Gupta. In the beginning of eight century, king Gun kam Dev renovated the Kathmandu city by taking loan and at the end of the same century, a merchant named shankhadhar had started the “New Ear” (Nepal sambat) after freeing all the people of Kathmandu from the debt. Sadashiva Dev in 12th century introduced silver coin, king Jayastithi Malla had given the responsibility to a caste of society called “Tankadhari” while he had given the name of the castes and their professions for the purpose of transactions of money in the society. In the same century copper coins were used by king of kathmandu Jaya prakash Malla.

After the unification of Nepal, Prithvi Narayan Shah the great king had used coin Mohar in his name. An institution called “Taskar” was established in 1989 B.S. and it started to issue the coin scientifically. In this way we see that the coins have been in use from the ancient time and there was practice of taking and giving loan for the purpose. During the reign of Ranodip Singh, an office named “Tejarat” was established in Kathmandu in 1933 B.S. It used to provide loans to the government officials and the people against deposit of gold and silver. It has also extended its branches outside Kathmandu valley for giving loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks. Nevertheless we can say that having concluded treaty with British India in 1980 B.S. Nepal could trade overseas freely for the diversification of trade. As a result, in 1993(1939) the draft of the company act and banking act were prepared by forming industrial council “A Jute Mill” was established in Biratnagar as well as institutional banking system had been started together at a time in Nepal .

After the establishment of Nepal Bank Limited (NBL) on 30th Kartik, 1994 B.S., modern banking system started in Nepal. Nepal was influenced by the renaissance and the industrial growth brought about by First World War. Since, Ashwin 1st 2002 B.S. the notes Rs. 5, Rs.10 and Rs.100 were brought into use from Sadar Muluki Khana of His Majesty Government (HMG/N).

The economic and industrial development was stopped in Nepal from the Second World War. After 2007 B.S. the banking activities of Nepal were not satisfactory due to political instability. At first, this bank was given the authority and responsibility to control bank, but with the change of time, it was necessary to establish a central bank. So in 2013

B.S., Nepal Rastra Bank (NRB) was established in Nepal. It issued the Nepali notes on 7th Falgun 2016 B.S. for the first time. This bank is the central bank of Nepal.

Rastriya Banijya Bank (RBB) was another important bank to be established in Nepal. The existence of only one bank NRB was functioning in the field of business only. Hence establishment of RRB had a great significance. The bank was established in government sector in 2022 B.S. Its functions are to accept the deposits, to provide loan, to carry out works relating to agencies. It has rendered a great contribution to the development of the country.

The process of the development of banking system in Nepal was not satisfactory up to 2040 B.S. No bank was opened during this period except Agriculture Development Bank (ADB/N) in 2024 B.S. and only extending the branches and sub branches of the banks, in this period. Nepal was deeply studying and searching what sorts of programs, policies, law and regulations should be brought into practice. The country cannot changes its status by using only its own capital in the country without importing new technology from foreign country and accordingly law and policy have been enacted by state to encourage the foreign investment on banking sector. From this the real form of the development of banking system started in Nepal. The competition began to grow the banks began to offer their valuable services to the people through new technologies. This was the great significant event. Thus, some banks are opened on the joint investment basis.

Nepal Arab Bank Limited was established on 26th Ashar, 2041 B.S. as a first joint venture bank in Nepal opened under Banijya Bank Act,

2031 B.S. Having observed the success Nepal Arab Bank Limited (currently named Nabil Bank Limited) & of liberal economic policy adopted by the government, various other commercial banks including joint venture banks & privately ownership banks established in Nepal.

1.2 OBJECTIVE OF THE STUDY

The aim of the study on the topic “Role of Commercial Banks for Deposit Mobilization with reference to Nepal Investment Bank Limited (NILB) and Bank of Kathmandu Limited (BOKL)” is to know the deposit position, the way they are utilizing their surplus deposit funds and the right reinvestments for the economic development of a country.

The specific objectives of the study are as follows:

- To analyze the deposit position of the banks (BOKL & NIBL) under study.
- To analyze the deposit utilization and its relationship with total investment, loan & advances and Net profit.
- To determine the growth rate of the bank in term of deposit, loan & advances and profitability of the banks.
- To analyze the trend of deposit and loan & advances.
- To test various related hypothesis.
- To provide suggestions for the improvement on the basis of findings.

1.3 STATEMENT OF THE PROBLEM

The need of liquidity mobilization for economic development of a country is no more to question. But we are facings an acute problem of resource mobilization. We have more than 23 commercial banks in Nepal, which are very much considered to be vital financial institutions to

mobilize deposit resources. They have of course a good performance in the course of mobilizing deposits.

The problem associated with commercial banks with regard of liquidity mobilization and reinvestment aspects are highlighted below:

- What is the deposit position of the sampled banks?
- Which bank is maintaining the sufficient position?
- Are the both bank's role for fund mobilization and investment policy are more effective and efficient?
- What is the relationship between total deposit, investment and loan & advances?
- How far the gap between deposits and investments of the sampled banks?

1.4 FOCUS OF THE STUDY

Liquidity mobilization refers to as using money to get long-term benefit. Investment in its board sense means the sacrifice of certain percent value fro (possible uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense, of the placing of money in the hands of other for their use, in return for a proper instrument entitling holder's to fixed income payment or the participation in expected profits.

The present economic position of Nepal is encouraging the savers to deposit their money in banks rather than investing in stocks, assets and new business etc., which in turn is hampering the bank's portfolio because deposits are higher and limited safe investment areas decreasing day by day.

In spite of low interest rate, the depositors are feeling secured towards commercial banks but the highest surplus deposits are almost idle in the banks due to continuous fall in Nepalese economy because of conflict situation, changes in taxation policy, and adversely affected tourism industry and agricultural industry.

The study focuses on the mobilization of deposits and reinvestment aspects of Nepal Commercial Banks with special reference to Bank of Kathmandu Limited (BOKL) and Nepal Investment Bank Limited (NIBL). The study focused to analyze and evaluate the deposit utilization of the bank in term of loan & advances, investments and its impact in the profitability of the bank with the help of financial analysis and statistical analysis.

1.5 SIGNAFICANCE OF THE STUDY

The proper role in mobilization & utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic prosperity of the nation. The success and prosperity of the banks relies heavily upon the successful formulation and effective implementation of investment policy.

The significances of the study are pointed below:

- The study is important to know how well the banks (BOKL &NIBL) are utilizing their deposits.
- This study is important to policy makers and academic professionals to formulate policies in the basis of the performance of these banks.
- This study is important to the banks to make policies based in recommendations suggested in this thesis.

- This study helps those banks to compare each other's performance and plan accordingly for future.
- It is important for the investors, customer (depositors' loan takers as well as other types of clients), competitors, market makers, stockbrokers and personnel of bank to take various decisions regarding deposits and loan & advances.

1.6 LIMITATION OF THE STUDY

Each and every job has its own line of control, depending upon this periphery all project works are performed. All study is inbuilt with some constraints and problems such as resources i.e. data, time etc. Each and every organization has their own restriction to provide the institutional data's due to the business secrecy. There are some shortfalls or drawback while preparing report.

Some of the limitations are specified as follows:

- This study is based on secondary data, the accuracy of which depends upon the data collected and provide by the organization.
- This study covers the relevant data and information of only five years (i.e. from F/Y 2004/2005 to 2008/2009).
- Only two samples are taken to study which may not be reliable for overall population.
- Due to the confidential nature of the banking sector bankers do not provide correct or relevant information on same topics in order to maintain the privacy of the bank.
- Non availability of the plentiful literature on the subject has handicapped the study to some extent.
- Due to the time constraint or limited, it has harmed the study.

1.7 ORGANIZATION OF THE STUDY

The study has been organized into five chapters, each are denoted to some aspects of clearing and settlement systems of the study. The title and little bit description of each chapter are as follows:-

Chapter 1

It includes the introductory part of the study as already mentioned; this chapter describes the background of the study, objective of the study, statement of the problem, focus of the study, significance of the study, limitations of the study and the organization of the study.

Chapter 2

This chapter describes the theoretical analysis and brief review of the related and pertinent literature available. It includes a discussion on the conceptual frame work and review of the major studies.

Chapter 3

This chapter describes research methodology and technique used to carry out this study; this includes the matter and source of data, population samples, modal of analysis and meaning & definition of statistical tools used.

Chapter 4

This deals with the various presentation and analysis of secondary data by using various tools and techniques.

Chapter 5

It states the summary, conclusion & major findings of the study. A part from these, it provides recommendation & suggestions to various stakeholders. The exhibits bibliography and appendix are incorporated at the end of the study.

CHAPTER-2

REVIEW OF LITERATURE

Review of literature is the process of reviewing the available material relating to the particular research work. Review of literature is stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. In the course of research, review of existing literature would be helpful to check the chances of duplication in the study. Review of literature is the process of reviewing the available material relating to the particular research work. The review of literature is to read the related books and other materials concerning researcher's topic by him/her. It helps to researchers to know what has been found about the topic and what new contribution can be made or is necessary.

This chapter includes the review of previous studies, articles and conceptual framework for the related studies. To present the real framework of the study, mere analysis is not enough and review of some related materials should be dealt with to give the research a clear vision. Past study knowledge provides foundation to the present study. So analyzing & presenting the following parts define this chapter:

- i. Conceptual review
- ii. Review of related studies

2.1 Conceptual Review

Conceptual basically concerned with the theoretical part relevant to the topic.

2.1.1 Concept of Bank

Generally, an institution established by law, which deals with money & credit is called bank. It is obvious that in a common sense, an institution involved in monetary transactions is called bank.

A bank is a financial institution, which plays a significant role in the country. It facilitates the growth of trade & industry and boost nation economy. However, a bank is a resource of society and extends credit to the people.

A bank is a business organization that receives & holds deposits of funds from others, makes loans or extends credits & transfers funds by written orders of depositors (**The Encyclopedia America, 1984; P: 302**)

The business of the banking is collection of funds from community & extending credit to people for useful purposes. Bank plays a vital role in making money from lenders to borrowers. Bank is a profit seeking business, not a community charity profit seeker. It is expected to pay dividend and otherwise, add to the wealth of shareholders. (**The Encyclopedia, America, 1984; P: 6**)

Hence, in concise, we can say that there is no single universally accepted definition of bank. In brief, it is an institution, which accepts deposits in different accounts, provides loans of different types and creates credit.

2.1.2 Concept of Commercial Bank

Commercial banks are that financial institution which deal in accepting deposits of people & institution and give loans against securities. They provide working capital needs of trade, industry and even to agricultural sector. Commercial banks also provide technical and administrative assistance to trade, industries and business enterprises. Commercial bank is a corporation, which accepts demand deposits, subject to check and makes short-term loan to business enterprises, regardless of the scope of its other services.

In the Nepalese context, Commercial bank act 1974 defines “A commercial bank as one which exchanges money, deposits money, grants loan and performs commercial banking functions.” (**Commercial Bank Act, 1974**).

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

“Principally, commercial banks accept deposits and provide loan, primarily to business firms, thereby facilitating the transfer of funds on the economy.”(**Abrol & Gupta, 1971, P: 65**)

“ The American institution of bank 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”(Principle of Bank Operation, USA, p: 609)

“A commercial banker is a dealer in money and substitutes for money and substitution for money, such as cheque or bill of exchange. He also provides a variety of financial services.”(The New Encyclopedia Britanica, 1985, Vol. 14, P: 605)

“The term ‘Commercial Bank’ is also misleading because it obscures the fact that Commercial Banks perform not only one but many types of functions. Today the commercial banks not only issue the transfer deposits through cheques but they also operate underwrites to new equity issues deal facilities handle tax matters on behalf of their clients etc.”(M.C. Vaish, 1993, P: 245)

Thus, the commercial banks are those banks that pool together the saving of the community and arrange for their productivity use. They accept deposits from the public on the condition that are repayable on demand. They grant loans in the form of cash, credits and overdrafts. They also render services like collection of bills and cheques, safekeeping of valuable financial advising etc. to their customer.

The commercial banks in Nepal are categorized into four groups on the basis capital owned. They are; the fully owned bank, the government & private owned bank, the joint venture banks and the privately owned banks. However, central bank is the main bank of any nation that directs and controls all the other banks. In Nepal, Nepal Rastra Bank is the central bank and all the commercial banks perform their functions under its rules, regulation and direction.

Some Commercial banks that are now operating in Nepal are as follows:

S.No.	Names	Operation Date (A.D.)	Head Office
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu
7	Himalayan Bank Limited	1993/01/18	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu
10	Everest Bank Limited	1994/10/18	Kathmandu
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupendehi
13	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitawan
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar, Morang
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski
16	Kumari Bank Limited	2001/04/03	Kathmandu
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Limited	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	Development Credit Bank Ltd.	2001/01/23	Kamaladi, Kathmandu
25	NMB Bank Ltd.	1996/11/26	Babarmahal, Kathmandu

*Source: www.nepalstock.com.

2.1.3 Functions of Commercial Banks

Commercial banks are the most important types of financial institution for the nation in terms of aggregate assets. Traditional functions of commercial banks are only concerned with accepting deposits & providing loans. But modern commercial banks work for overall development of trade, commerce, services and agriculture also. The business of banking is very broad in modern business age. The number and variety of services provided by bank will probably expand. Recent innovation in banking include the introduction of credit cards, accounting services for business firms, factoring, leasing, participation in the Euro-dollar market and lock-box banking.

The main functions of commercial banks are as follows:

- i. **Accepting Deposits:** - It is fair deduction that no person or body, corporate or otherwise, can be banker who does not take deposits, issue & pay cheques and collect cheques from his customers. Here, all functions are related with the acceptance of deposits. Therefore, accepting deposits by bank is the oldest function of bank.

A bank accepts deposits in three forms viz. saving, current & fixed. Saving deposit is one of the deposits collected from small depositors & low-income depositors. The banks usually pay small interest to depositors for their deposits. Current account is also known as demand deposits. Under this, any amount may be deposited. There are no restrictions regarding number & amount of withdrawals as contrary to saving account. The banks don't pay any interest on such account but charge small amount on the customers having current account. A fixed or time deposit is one where customers are requested to keep a fixed amount in

the bank for specific period, generally by those who don't need money for stipulated time. The bank pays a higher interest on such deposits.

ii **Advantage Loans:** - The second major function of a commercial bank is to provide loans & advances from the money, which it receives by way of deposits for the development of industry, trade, commerce, services and agriculture. The main purpose of commercial bank is to boost up the development pace of communities & the economy as a whole.

iii. **Agency Services:** - The bank also performs number of services on behalf of the customers. The following are the agency function provided by the bank.

- Dealing with the transaction of foreign exchange business
- Serving as an agent of correspondent on behalf of the customers
- Issuing letter of credit, circulate note, traveler's cheques, etc.
- Purchasing & selling different kinds of securities & remitting funds
- Keeping valuable article in safe custody
- Providing financial advice to various persons & bodies whenever required

iv. **Creating Money:** - The major function of the bank that separates it from other financial institution is the ability to create money and to destroy money, which is accomplished by lending & investing activities. The power of the commercial banking is of great economic significant as it results in the elastic credit system that is necessary for the economic progress at a relatively steady growth rate (**American Institute of Banking, 1985**)

2.1.4 Resources of Nepalese Commercial Bank

Commercial banks have mainly three sources for their advancing. They are as follows:

- i. **Capital:** - As far as the capital fund is concerned, it is only a nominal source. Therefore, it can be used for investment purposes. This capital fund consists of two elements; paid up capital & general reserve.

- ii. **Deposits:** - Deposits are the main resource of the banks for advancing loans. It is received from different forms & accounts. There are mainly three types of deposits viz. saving, current, & fixed. In a developing country like Nepal where the majority of people are still poor, saving deposits has played a significant role in the development of a country. Therefore, the main source of raising capital is that of deposits. Ronald (1962) rightly says, “The deposit function of the bank is important because it has to aggregate small sums of money lying scattered here & there like twenties, fifties, and hundreds. Singly these sums have no economic efficiency what so ever but they can accomplish Herculean tasks when they are aggregated & employed by the banker.”

- iii. **Internal & External Borrowing:** - Internal & external borrowing are very important for a developing country like Nepal being underdeveloped country; Commercial Banks alone cannot fulfill the necessities of the society. Therefore, they are allowed to borrow from two sources, external and internal. Generally, external borrowing means the borrowing from foreign bank, foreign government, International Bank for Reconstruction and Development (IBRD),

International Monetary Fund (IMF), etc. Internally, commercial banks can borrow from only one source, i.e. from NRB.

2.1.5 Meaning of Deposit

Deposits are the main sources of fund used by banks for the generation of profit. Therefore the efficiency of bank largely depends upon its ability to attract deposit. The capacity of bank to earn profit depends on the volume and the deposit mix of the bank. By providing certain rate of interest commercial banks call for the deposit from the customer. The volume of the funds that management will use for creating income, through loans and investment, is determined largely by the bank's policy governing deposit. In other words, 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 deposits creating powers of the banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by the bank's management. There are regular changes in this view in the modern banking industry."(Vaidya, 1999, P: 68)

Thus banks have involved from relatively passive acceptors of deposits to active bidders 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 is when the banker receives cash and credits a customer’s account, it is known as a primary or a simple deposit. Such primary deposit is made from the initiative of depositors. The second, when the bank advances loans, discounts bill, provides overdraft facilities and makes investments through bonds and securities. This is called derived deposit or derivative deposit. They add to the supply of money. Banks actively create such deposits.”(**The encyclopedia Britanica, 1981, P: 700**)

2.1.5.1 Types of Deposits

Deposit represents the liability of the bank because they are the amount borrows from the depositors or from the general public. A bank collects deposits from individuals, businessman, industrialists and other individuals in the various forms such as saving, fixed and current deposits for safety and future purpose.

Such amount is the main sources of capital for commercial bank. Bank, flows such amount as loan and invest in different sectors to earn profit. Usually, a bank accepts three types of deposits. They are current, saving and fixed deposits. But in other countries we find more than three deposits. In Nepal, banks grant permission to their customers to open three types of accounts under various terms and conditions. This classification is made on different theoretical and financial basis. Therefore, deposits of bank are classified on the following basis.

- i. Demand Deposit
- ii. Saving Deposit
- iii. Fixed Deposit

I. Demand Deposit

The deposit in which an amount is immediately paid at the time of any holder's demand is called demand deposit. In other words, it can also be called as current account. Current account means an account of amounts deposited in a bank, which may be drawn at any time on demand. Its transaction is continual and such deposits cannot be invested in productive sector. So, such type of amount remains as stock in the bank. Though the bank cannot gain the profit by investing it in new sector after taking from the customer, this facility is given to the customers. Therefore, the bank does not give interest on this account. From such deposit, the merchants and traders are benefited more than the individual. The bank should pay as many times as the cheque is sent until there is deposit in his/her account. The bank can't impose any condition and restrictions in demand deposit. An institution or an individual, who usually needs money daily, precedes their acts and transaction through such deposit. The current account is very important for the customer of bank.

II. Saving Deposit

The bank can collect capital through the saving deposit as well. This deposit is also important and its necessity and scope is not negligible. According to the commercial bank act 2031, "Saving account means an account of amounts deposited in a bank for saving purposes. This account is suitable and appropriate for the people of middle class, farmers and the labors having low income, officials and small businessman. This saving deposit bears the features of both the current and fixed period deposits. Generally, most accounts are opened on saving deposit in a bank. Therefore, this deposit is popular in people in general.

According to internal rules of banks, some banks demand a small amount and some demand a great deal of money to open saving account and some have not fixed the limitation. Banks give some interest on it.

III. Fixed Deposit

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

“Usually, only the person or the institution that wants to gain more interest opens such type of account. The period of time can be 3 months, 6 months, 9 months, 1 year, 2 years, 3 years, 4 years and 5 years etc. more interest rate is payable in this deposit than other deposits. The bank invests this money on the productive sector gaining profit thereby and the customers too can make their financial transaction stronger by getting more interest from this deposit. The amount collected in fixed deposit must be return to the customer after the date is expired. The amount can't be withdrawn before the fixed time” **(Bhandari, 2003, P: 73-76).**

2.1.6 Deposit Mobilization

Deposit mobilization refers to the process of collecting scattered money resources through different means and medias and investing in productive sector to increase income of depositors.

Bank collects amount from people by encouraging them to deposit amount in account which is one of the main source of capital for bank. So, collected amount by bank is then invested in different feasible and productive sector in order to earn income. This earned income is paid to the clients that ultimately prosperous their money income. As a result, deposit mobilization supports the saving of people through the investment of extra amount. Bank acquires funds from large numbers of surplus units and provides funds to large numbers of deficits units.

The main objective of deposit mobilization is to convert idle saving into active saving among people. Saving refers to amount left after incurring all expenses from total income. So, these excess money incomes are saved by people in the hoping to meet future expectation or financial support.

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

To achieve the higher rate of growth and per capita income, economic development should be accelerated. "Economic development may be defined in a very broad sense as a process of rising income per head through the accumulation of capital." (**Johnson, 1965 P: 11**). But how capital can be accumulated in the developing countries, there are two

ways of capital accumulation in the developing country one from the external sources and other from the internal sources. In the first group Foreign aid, loans and grants are the main, while in later, financial institutions operating within the country play a dominant role. In the context of Nepal, commercial banks are the main financial institutions, which can play very important role in the resource mobilization for the economic development. Trade, industry, agriculture and commerce should be development for the economic development.

Capital formation is 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 source of capital formation.

“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 certain 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 increased as much as we can mobilize the accumulated deposit effectively” **(NRB, Nepal Bank Patrika, 2037, No.4, P: 7).**

“A commercial bank changes the scattered unproductive small savings into loan able and active savings. The bank not only collects saving, but also it provide incentives to the savers and help them to be able to save more” **(RBB, Upahar, 2054, No.3, P; 15).**

“Deposits such as fixed, saving and current deposits are the main part of the working capital. It is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort to every possible means laying at their disposal”(NRB Nepal Bank Patrik,2040, No.3, P: 2).

Deposit means wealth of people. So it will be immoral and unethical to mobilize such money resources on unfeasible sector and irregular way. On the other hand, if deposit is not mobilizes than bank might face big challenge of loss.

Bank mobilizes deposit one of two ways through creating credits. Firstly, when a customer is granted a loan receives in a turn a bank's deposit i.e. current account after signing a note and allows him/her to withdraw the required sum by cheques. Secondly, by central bank act in any country, each bank must set aside only a fractional reserve behind each deposit it receives and remaining can loaned out to other bank.

2.1.6.1 Why Deposit Mobilization is needed?

The following are some reasons for why deposit mobilization is needed in a developing country like Nepal. Workshop report “Deposit mobilization why and how” (NRB, Banker's Prakashan, 1984, No. 24), 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 sectors of a country. In our developing country, we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.
- The need of deposit mobilization is felt to control unnecessary expenditure. If there is no savings, the extra money that the people have, can flow forwards buying unnecessary and luxury goods. 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 sector like food grains, gold and silver etc. Though these loans are traditional in nature and are not helpful to increase productively, but it helps, to some extent, to mobilize bank deposit.
- To increase saving is to mobilize deposit. It is because if the production of agricultural and industrial products increases, it gives additional income, which helps to save more and ultimately it plays a good role in deposit mobilization (**P: 10**).
- Low national income, low per capita income, lack of technical know how, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical condition etc. are the main problem to bring economic development of an under developed countries (UDC) like Nepal. On the other hand the development

process of these sectors should go side by side. So for the developments these sectors concerned, there is a need of more capital. Deposit mobilization helps in capital formation & thereby plays a vital role in economic development of a country.

2.1.6.2 Effectiveness of Deposit Mobilization

In that report, group “B” states following points as the advantages of deposit mobilization:

- **Circulation of idle money**

Deposit mobilization helps to circulate the idle money. The meaning of deposit mobilization is to convert idle saving into active saving. It helps the depositor’s habit of saving on one side and it also circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors. Again, investments in productive sector help directly in country’s economic development and also increase investor’s income.

- **To support in fiscal and monetary policy**

Fiscal policy of the government & monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. It helps to canalize idle money in productive sectors. Again, it helps in money supply. This saves the country from deflation and helps central bank in achieving the objective of monetary policy.

- **Promoting cottage industries**

Deposit mobilization is needed to facilitate cottage industries located in rural and urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it is helpful not only to promote cottage industries in the area,

but also support in the development of the locality as a whole increasing implement and income of the local people.

- **Capital formation**

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

- **Development of banking habit**

One of the important sides 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.

- **Checking up miss utilization of money**

Mostly our customers and habits are supported by social and religious believes. There is also tendency of copying others and to show their superiority buying unnecessary and luxury items in our society. In such society, deposit mobilization proves a tool to check up miss utilization of money.

- **Supporting government development projects**

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

- **Co-ordination between different sectors**

Deposit mobilization helps to collect capital from surplus & capital hoarding sectors. 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 & the needy sector receiving loan & advances, benefits the surplus & hoarding sectors. Thus it helps to keep good co-ordination between different sectors.

- **Others**

Deposit mobilization supports small savers by earning interest helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers investment incentives, provides facilities to the small farmers to purchase tools & fertilizers etc. **(PP: 12-14)**

- **On this same report, Group “C” views that:**

Capital is needed for the economic development of a country. External sources are not dependable sources of capital. So, mobilization of internal resources has a great significance. This is the only way of receiving capital continuously for a long time.

- Group “C” further states that “there are various institutions, which mobilize internal resources. These are commercial banks, insurance companies, post offices etc. Among them, commercial banks are the effective & dependable sources mobilizing internal resources. This is due to the fact that commercial bank’s branches are scattered all over the country. Deposit mobilization not only helps in country economic development, it is also helpful to the depositor. The interest earned in the amount helps to raise the standard of living on one side and on the other, the depositor had right to draw the deposited amount at the time need” **(P: 17)**

So, commercial banks play an important role for the economic development not only in a developed country, but also in developing country.

2.1.6.3 Constraint towards Mobilizing Deposits

There are some constraints towards mobilizing money collected through deposits which are listed below:

- **Amount of Cash**

Mobilization of deposit depends on the amount of cash the bank collects through deposit. Large amount of cash can create amount of credit. The amount of cash which is in the vault of bank is not the determining factor for deposit mobilization. It depends upon the primary deposits of the bank. On the other hand, every bank should be aware that it is responsible to meet the demands of its customer to pay cash immediately. Amount of cash facilitate the liquidation position of banks.

- **Banking Habits of People**

Banking habit of public also helps to mobilize deposit of bank. If they are interested to do banking transactions through cheque then it is possible to channelize the deposit in effective way. If banking procedures is a nuisance and difficult process, then it hampers deposits mobilization process.

- **Minimal Legal Reserve Ratio**

The ratio of cash reserve to deposits which the bank wants to maintain also affects its power to mobilize deposit. Therefore, higher the percentage of cash reserve ratio, the smaller will be the volume of deposit mobilization.

- **Bank Reserve with the Central Bank**

All commercial banks have to deposit certain percentage of cash in central as a reserve. Hence higher the reserves with the central bank means lower will be the deposit mobilization and vice versa. Central bank determines this limit according to the nature and necessity of economy.

- **Business and Economic Condition**

During period of sound economic condition, business activities flourishes, as a result deposit mobilization is possible through creating credit in full swing and providing loan. Where as during depression there is low demand of loan, hence lower will be the creation of credit.

- **Availability of Collateral**

The availability of collateral (securities) is one of the factors that limit the power of bank to mobilize deposits by granting loan. A bank lends money only when the collateral offered is acceptable. If sound and suitable collateral are not available, the banks cannot able to mobilize deposits in effective way through granting loan.

- **Credit Control Policy of Central Bank**

The power of central bank in mobilizing deposit is confined by the credit control policy of the central bank. Central bank influences the amount of cash reserves with banks by open market operations, discount rate policy and varying margin requirements. Consequently, it affects the deposit mobilization by expansion and contraction of credit.

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 previous Thesis

Various thesis works have been conducted by various students regarding the various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, deposit mobilization, capital structure etc. some of them, as supposed to be relevant for the study are presented below:

Shrestha, Samiksha (2042) has conducted research on the topics of “A study on deposit mobilization of commercial banks with reference to NBL” with the objectives of:

- To sketch the deposit mobilization of NBL.
- To analyze the impact of interests rate in deposit mobilization.
- To analyze the impact of branch expansion on the deposit mobilization.

This study covers ten years data from the year 2031B.S. to 2040 B.S. It is limited to deposits and loans and advances only. The study is primary based on secondary data. In this study, statistical tools like percentage changes, correlation test is dine and to test its significance analysis, probable error test is carried out.

On this thesis, the writer found that NBL has been much sufficient in collection of resources from the people in both urban and rural areas of the country, but in the process of utilization, the bank is still behind. The interest rate has played important role in mobilizing and utilizing the resources of the bank. So, the structure of interest rate should be changed according to the need of nation. It is also suggested that to expand availability of banking services, branch expansion policy should be

continued to mobilize resources as well as accelerate lending to productive sector.

Neupane, Nirmal Man (1986) has conducted research on the topic of “Deposit mobilization of commercial banks in Nepal, comparative study of RBB and NBL, Kirtipur Branch” with the objectives of:

- To examine whether RBB, kirtipur branch is successful to compete with NBL, kirtipur branch in relation to deposit and loan & advanced.
- To examine how far RBB, kirtipur branch is successful to provide door-to-door services to its customers in the collection of more deposits as compare to NBL, kirtipur branch.
- To examine how far the deposits of RBB, kirtipur branch have been efficiently mobilized as compare to NBL, kirtipur branch.

This study covers deposit and credit during the year from Mid-July 1976 to Mid-July 1985 of RBB and NBL, kirtipur branch. The study is based on both primary and secondary data; Karl’s Pearson’s formula of coefficient correlation has been used to compare various variables.

In this thesis research, the writer has found that a comparative study of deposit between the two banks shows a good position of NBL branch’s deposit comparison to RBB branch as well as credit position. The writer has also mentioned that the activities of the both branches for mobilizing deposits seem to be idle. The branch has taken no steps for collecting more deposits or advancing more loans except the customers they knock the door. Lastly the researcher found that RBB kirtipur branch is not successful to collect maximum deposit from the area it covers as comparison to NBL kirtipur branch.

So, the researcher has recommended that local staff can play an active role in deposit collection. So, at least four local staffs are suggested to appoint in the RBB branch out of 8 staff in deposit counter. He has further suggested that there should be a certain budget to the branch for advertisement about its activities and interest rates must be revised.

Karki, Raj Kumar (2001) has conducted research on the topic of “An analysis of deposit mobilization of RBB, Lahan Branch” with the objective of:

- To know the deposit position of the RBB, Lahan branch.
- To analyze the impact of interest rate in deposit mobilization.
- To analyze the efficient utilization of accumulated deposit.

This study is mainly concern with the RBB, Lahan branch. The data presentation analysis of deposits and loan advances is limited to the period of ten year from the year Mid-July 1990 to Mid-July 1999. Most of data are secondary type and applied the correlation coefficient as statistical tool. In the study, the researcher has found that RBB, Lahan branch is less successful to collect maximum deposit and also the deposits cannot efficiently utilize and there is negatively correlation exists between interest rates and total credits.

For so, the researcher has recommended that bank should extend long term credit, the bank should not very much conscious about its security. The person, who has skill but not security, should get loan from the bank. The bank should decrease interest rate on credit side and staffs should be trained. Finally, the researcher has suggested that there should

be frequently communication between staffs and key customers, particularly businessman.

Agrawal, Rajendra (2002) has conducted research on the topic of “A study on deposit and investment position of Yeti Finance Company Limited” with the objectives of:

- To examine deposit position of Yeti Finance Co. Ltd.
- To examine Investment position of Yeti Finance Co. Ltd.
- To examine trend of deposit and investment.

This study was conducted on the basis of secondary data and used various financial tools and statistical tool to analyze the data. The study just covered only period of 5 year (i.e. FY 1996/97 to 2000/2001). The researcher has found that the deposit policy is not stable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment. The researcher concluded that finance companies have been found profit oriented, ignoring the social responsibility, which is not a fair strategy to sustain in long run.

Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

The minimum amount to open accounts and interest on credit should be reduced which ultimately intensify the profit and goodwill of

the company in future. But in his research there is not clearly mentioned the effect of interest in deposit collection as well as in investment.

2.2.2 Review of Research papers, Articles and Journal

When funds are plentiful, market rate generally tend to decline, banks seek an aggressively and therefore lower their rates induce marginal borrower to come into the market. When funds are scare banks raise their rates and some potential borrowers may differ the use of credit or seek it elsewhere” (**Crosse, 1963, P: 63**)

Shrestha (2058 B.S.) has expressed her view on investment. “The writer stresses on the fulfillment of credit needs of various sectors which insures investment. The investment lending policy of commercial banks is based on the profit maximization as well as the economic enhancement of the country”

“The investment objective is to increase systematically the individual’s wealth defined as assets minus liabilities. The higher the level of desired wealth the higher the return must be received” (**Cheney & Moses, 1991, P: 23**)

Investors seeking higher return must be willing to face higher level of risk. Finance company being only a financial intermediary, we will not be able to make any profit unless we mobilize funds suitably. It is from out of the interest, finance company earns on loan and advance, further has to pay interest on deposit meet liquidity of cash balance. To meet establishment expenses keep some balance for reserve and pay dividend to the shareholders.

Pradhan, (2053), in his article “**Deposit Mobilization, its Problem and Prospects**” has presented, “the deposit is the life-blood of every financial institution, like commercial bank, finance company, co-operative or non government organization”. He also added, in consideration of 10 commercial banks and nearly four dozen of finance companies, the latest figure does produce a strong feeling that serious review must be made of problem and prospects of deposit sector leaving few joint venture bank, other organization rely heavily on the business deposit and credit disbursement.

The writer has highlighted following problems of Deposit Mobilization in Nepalese context;

- 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 ornament. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawn system, and availability of depositing facilities and so on.
- Unavailability of the institutional services in rural areas.
- Due to lesser office hours of banking system people prefer holding and cash in the personal possession.
- No more mobilization and improvement of the employment of deposits and loan sectors.

Writer has also recommended for the prosperity of deposit mobilization which are as follows:

- By providing sufficient institutional services in the rural areas.

- By cultivating the habit of using rural banking unit.
- By adding service hour system to bank.
- Nepal Rastra Bank could also organize training program to develop skilled manpower.
- By spreading co-operative to the rural areas of development mini branch services. (P: 9-10)

Fry (1974) in the article, “**Resource Mobilization and Financial Development in Nepal**” says that, “the interest rate fixing authorities causes adverse effect on income distribution. Interest rate affect on income distribution. Interest rate affects the saving and its mobilization. A high interest rate diverts the resources from unproductive tangible assets into financial claim. For Nepalese people and Nepalese undeveloped money and capital market, interest can be taken as an important weapon in mobilizing the internal resources. Higher interest rate pushed people to some money and it allows people to invest into best opportunities” (Fry, 1974, P: 15).

Kafle (2053 B.S. P: 13), in her article entitled “**NRB and its Policies for Monetary Control**” opines that, “liberalization, the effect on deposit seems to be positive in the latter period as it is increased from 17.74 to 21.62 percent of nominal GDP. And this, there was a positive effect on savings 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 10.6 percent in the two period respectively.”

Bajracharya (2047 B.S.) through his article “**Monetary Policy and 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 and active financial intermediary for generation resources in the form of deposit of the private sector. So for providing credit to the investor's in different aspects of the economy" (P: 93-97).

Sharma (2000) on the entitled, "**Banking the Future on Competition**" found that, "all the commercial banks are establishing and operating in urban areas" His achievements are:

- Commercial banks are charging higher rate of interest on lending.
- Commercial banks are establishing and providing their services in urban areas only. They do not have interested it establish in rural areas. Only the RBB and NBL have branches in rural areas.
- They do not properly analyze the credit system. The researcher further states that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible A" (Sharma, 2000, P: 13).

Morris (1980) in this discussion paper "**Latin America's banking system in the 1980's**" has concluded that, "most of banks concentrated on compliance with central bank rules on resource requirement, credit allocation and interest rates. While analyzing loan portfolio quality operating efficiency and soundness of bank investment management has largely been overlooked, the huge losses now find in the bank's portfolio in many developing countries and testimony to the poor quality of this ever sight investment functions."

The writer adds that mismanagement in financial institution has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risks diversification of lending and investment, high risk concentration connected and insider lending, loan mismatching. This has led many banks of developing countries to the failure in 1980's.

CHAPTER-3

RESEARCH METHODOLOGY

A systematic methodology is essential to obtain the actual result from every research study. A good research methodology explains the method used in the study including presentation research design.

Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objective in view. Research methodology describes the methods and process applied in the entire aspect of the study. Methodology is the research method used to test the hypothesis. In other words, research methodology is process of achieving to the solution of problem through systematic or research methodology in the research method of technique used for the same entire study.

“Research methodology may be defined as a systematic process that is adopted by the researcher in studying a problem with certain objective in view” (**Wolff and Pant, 2001, P: 50**).

3.1 Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research question and to control variances. It is purely and simply the framework or plan for a study that guides the collection and analysis of data. A true research design is concerned with various steps to collect the data for analysis and draw a relevant conclusion. It is the arrangement of conditions for collection and

analysis of data that aims to combine relevance to the research purpose with economy in producer.

To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate deposits and its mobilization of BOKL & NIBL.

3.2 Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, the total commercial bank constitutes the population of the data and the bank under study constitutes the sample for the study. So, from the population of 25 commercial banks operating in Nepal, only two banks are taken as sample i.e. BOKL & NIBL.

List of population:

- Nepal Bank Limited
- Rastriya Banijaya Bank
- Agriculture Development Bank Ltd.
- NABIL Bank Limited
- Nepal Investment Bank Limited
- Standard Chartered Bank Nepal Limited
- Himalayan Bank Limited
- Nepal SBI Bank Limited
- Nepal Bangladesh Bank Limited
- Everest Bank Limited
- Bank of Kathmandu Limited
- Nepal Credit and Commerce Bank Limited

- Lumbini Bank Limited
- Nepal Industrial & Commercial Bank Limited
- Machhapuchhre Bank Limited
- Kumari Bank Limited
- Laxmi Bank Limited
- Siddhartha Bank Limited
- Global Bank Ltd.
- Citizens Bank International Ltd.
- Prime Bank Ltd.
- Sunrise Bank Ltd.
- Bank of Asia Nepal Ltd.
- Development Credit Bank Ltd.
- NMB Bank Ltd.

The samples to be selected from total population are as follows:

- Bank of Kathmandu Ltd.
- Nepal Investment Bank Ltd.

3.3 Sources and Data Collection Techniques

This study is conducted on the basis of secondary data. The data relating to analyze deposit & its mobilization are directly obtained from the annual of concerned banks. Supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, Security Board Nepal, Nepal Stock Exchange Limited, Ministry of Finance, Budget Speech of different fiscal years, Economic Survey and National Planning Commission etc.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. In other judge, the reliability of data provided by the banks and other sources, they were compiled the annual reports of auditor. Similarly, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Method of Analysis

To achieve objective of this study, various financial, accounting and statistical tools have been used. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as percentage graph, Karl Pearson's coefficient of correlation, and regression analysis, the method of least square and test of hypothesis are used in this study. Likewise, some financial tools such as ratio analysis and trend analysis have also used for financial analysis.

The various calculated results obtained through financial, accounting and statistical tools are tabulated under different headings. Then, they are compared with each other to interpret the results.

3.4.1 Financial Tools

A financial tool helps to analyze the financial strength and weakness of the firm. Ratio analysis is one of the important financial tools that have been used in the study. A ratio is simply on number expressed in term of another and such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as coefficient. Logarithmic graph and

break-even chart are the graphic forms of expressing a ratio. Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decision. Ratio analysis is used to compare a firm's financial performance and status to compare with other firms as well as to it overtime. Even though, there are many ratios to analyze and interpret the financial statement, only those ratio are calculated and interpreted that are related to the investment operation of the bank have been covered in this study. The following types of ratios have been used in this study:-

3.4.1.1 Liquidity Ratio

Liquidity ratios are used to judge the ability of a firm to meet its short-term or liabilities that are likely to mature in the short period. From them, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the even of adversities. It is measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance.

The following ratios are developed under the liquidity ratios to identify the liquidity position.

a) Cash & bank balance to total deposit

This is the most important ratio for measuring the short-term solvency position of the commercial banks. The sound ratio indicated the strong liquid position of the bank to meet the immediate cash requirement of the customers and creditors. This ratio is obtained by dividing the total cash with the bank itself and at bank as:

$$\frac{\text{Cash \& bank balance}}{\text{Total Deposit}}$$

Hence, cash and bank balance includes cash on hand, foreign cash on hand; cheques and others cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposit, saving deposit, fixed deposit, money at call & short notice and other deposits.

b) Fixed Deposit to total Deposit

Fixed deposits are high interest bearing obligation for any commercial bank. Fixed deposit can be the major source of the bank to invest in different profitable sectors. As this is the highest interest bearing deposit greater portion of fixed in total deposit increase the cost. However if the amount of fixed deposit is properly invested in loans and advance, it can be profitable. So the proper utilization of fixed deposit is also very important. This ratio is computed to find out the % of fixed deposit with respect to the total deposit. The ratio can be computed as,

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

c) Saving Deposit to Total Deposit ratio

This ratio is calculated to find out the portion of saving deposit with respect to the total deposit. Saving deposit is the deposit in which the interest rate lowers than that of fixed deposit and cannot withdraws as freely a current account. So saving deposits stands midway between fixed and current deposit. The ratio can be computed as,

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

3.4.1.2 Assets Management Ratio

Any commercial bank must able to manage its assets very well to earn high profit, to satisfy its customers and for existence. This ratio measures the efficiency of commercial bank in its fund mobilization. By the help of following ratios assets management ability of any firm has been analyzed and compared. Assets management ratio measures how efficiently the bank manages the resources at its command. The following ratios are used under this assets management ratio.

a) Total investment to total deposit ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on investment in government securities and shares, debentures of other companies and bank. This ratio can be calculated by dividing total investment by total deposit. This ratio indicates the proportion of deposit utilized for income generating as well as for maintaining liquidity in appropriate level. This ratio can be mentioned as,

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

b) Loan & advances to total deposit ratio

This ratio is calculated to find out, how successfully the bank are utilizing their total deposits on loan and advance for profit generation purpose. Higher ratio implies the better utilization of total deposits and vice versa. A higher ratio of loan & advances indicates better mobilization of total collected deposits and vice versa. This ratio can be obtained by dividing loan & advances by total deposits, which can be computed as,

$$\frac{\text{Loan \& advances}}{\text{Total Deposit}}$$

c) Loan & advance to saving deposit ratio

Saving deposit is second high interest bearing deposit, this ratio measures the extent to which the bank is successful to mobilize the saving deposit on loan & advances for the purpose of profit maximization.

It is calculated by dividing loans & advance by saving deposit as,

$$\frac{\text{Loan \& advances}}{\text{Saving deposit}}$$

d) Loan & advances to fixed deposit ratio

Fixed deposits are high interest bearing obligation for any commercial bank. As loan & advance is a major source of earning interest, the ratio measure how many time the fixed deposit is utilized in loan & advance for income generating purpose. It is calculated by dividing loan & advanced by fixed deposit.

$$\frac{\text{Loan \& advance}}{\text{Fixed deposit}}$$

3.4.1.3 Profitability Ratio

Profitability ratios are used to measure the bank's overall effectiveness of operation. The ratios used in this part are one of the good indicators of best performances. These ratios are used to indicate the profitability per unit with regards to various areas of the investment and sources of funds. The major ratios that we consider in this section are:

a) Net profit to total deposit ratio

Total deposit refers to all the deposit (i.e. fixed, saving, current deposits etc.) made by the customers. Deposits made by the customer are the major sources that can be mobilized by investing in different profitable areas for making profit. The ratio shows the % profit earned on total deposit. This ratio indicates how efficiently the collected deposit is utilized in order to make profit. This ratio can be computed as,

$$\frac{\text{Net profit}}{\text{Total deposit}}$$

b) Return on Loan & advances ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan & advances. Return on loan & advance ratio measure the earning capacity of a commercial bank on its mobilized fund based loan & advances. Higher ratio indicates greater success to mobilize fund as loan & advance. And vice versa. This ratio is computed by dividing net profit (loss) by loan & advances. This ratio can be computed as,

$$\frac{\text{Net Profit}}{\text{Loan \& advances}}$$

c) Interest income to loan & advance ratio

Loan & advances refer to the major part of sales of the banking services. Sound credit policy with minimal amount of non-performing credit reveals the success of banks in having better performance. In return, the banks charge interest on their amount of lending. Thus, a higher ratio is desirable for all kinds of financial institutions. This ratio can be computed as,

$$\frac{\text{Interest Income}}{\text{Total loan \& advance}}$$

3.4.1.4 Market Indicator ratio

Market indicator ratios or market value ratios are useful in detecting the position or value of the banks in the market. Under it, following ratios have been calculated.

a) Market price per share (MPS)

Market price of share is determined on the basis of demand and supply of shares in the secondary market. Various factors affect on the formation of share prices. Those factors may be both the intrinsic (company specific) factors and external factors including international economic scenarios or trends. Higher price is desirable for banks. It is also known as market value per share.

b) Book value per share

Book value per share represents the total net worth left over to the share of each common stock after deducting all external liabilities and

provisions. The more the value per share better will be the performance and stronger will be the firm's position. It is obtained by dividing the total book net worth of a firm by the number of common stocks outstanding. The ratio can be calculated as,

$$\frac{\text{Book value per share}}{\text{Total no. of common stock outstanding}}$$

c) Price-Earning ratio (P/E ratio)

It indicates the performance (efficient utilization of funds collected) of the commercial banks. It indicates the number of times the earnings is turnover with respect to price in the market. Higher ratio is desirable since increase in earnings is associated with the increase (growth) in stocks. However, the high ratio obtained by dividing the low price by very low earning is not considered good at any cost. The validity of higher P/E ratio lies only when both the market price and earnings are growing. This ratio can be computed as,

$$\frac{\text{Market price per share (MPS)}}{\text{Earning per share (EPS)}}$$

3.4.1.5 Growth ratio

Growth ratios are directly related to the fund mobilization and investment decision of the bank. This ratio represents how well the commercial banks are maintaining their economic and financial position. To examine and analyze the expansion and growth of the banks business, following growth ratios can be calculated in this study.

- Growth ratio of total deposits
- Growth ratio of total loan & advances
- Growth ratio of total net profit

These ratios are calculated as,

$$D_n = D_0(1+g)^{n-1}$$

Where as,

D_n = total deposits or loan & advances or net profit in the n^{th} year

D_0 = total deposits or loan & advances or net profit in the initial year

g = growth rate

n = Total no. of years

3.4.2 Statistical Analysis

For supporting the study, statistical tool such as mean, standard deviation, coefficient of variation, Correlation, trend analysis and hypothesis etc. tools have been used under it.

a) Mean (\bar{X})

A mean is the average value or sum of all the observations divided by number of observations and it is calculated as:

$$\bar{X} = \frac{\sum X}{N}$$

Where as,

\bar{X} = Mean of the values

N = Number of pairs of observation.

b) Standard Deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean. It is used as absolute measure of dispersion or variability. It is said that higher the value of standard deviation the higher variability and vice-versa. Karl Pearson introduced the concept of standard deviation in 1823 A.D. and this is denoted by s.d. or the small Greek letter \dagger (read as sigma). It is calculated as:

$$\dagger = \sqrt{\frac{\sum x^2}{N}}$$

Where as,

$$x^2 = (\bar{X} - X)$$

N= Number of observation

c) Coefficient of Variation (C.V.)

The standard deviation calculated in the above formula gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability. The coefficient of variation (C.V.) is calculated as:

$$\text{Coefficient of Variation (C.V.)} = \frac{\dagger}{\bar{X}} \times 100$$

d) Correlation Coefficient analysis

Correlation may be defined as the linear relationship existing between two variables. We examine the relationship between two variables. The correlation among different variables of a bank is

compared to measure the performance of these banks. Correlation refers to the relationship between/among two or more than two variables. Between two variables, increase or decrease in one variable causes increase or decrease in another, than such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient between two variables describes the degree of relationship between those variable. It interprets whether two or more variables are correlated positively or negatively. This tool analyzes the relationship between those variables of the bank, which are helpful to make appropriate investment policy regarding deposit collection, fund mobilization and profit maximization. The Karl Pearson coefficient of correlation (r) is given by the following formula:-

$$\text{Coefficient of correlation } r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where as,

r=co-efficient of correlation

$\sum X$ =total of X series

$\sum Y$ = total of Y series

$\sum X^2$ = total of the square of item in x series

$\sum Y^2$ = total of the square of item in y series

N= Number of pairs of observation

$$\text{Probable error (P.Er.)} = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

The Karl Pearson coefficient of correlation ‘r’ always lies between 1 to +1. The value of correlation in minus (-) signifies the negative correlation and in plus (+) signifies the positive correlation. As the value

of correlation coefficient reaches near to the value of zero, it is said that there is no significant relationship between the variables.

The coefficient of correlation has been interpreted based on probable error (P.Er.). If the value of coefficient of correlation is greater than 6 times the value of probable error, the coefficient of correlation is deemed as significant and reliable. If the value of correlation coefficient is less than probable error, the coefficient of correlation is said to be insignificant and there is no evidence of correlation.

In this section of the study, Karl Pearson's coefficient of correlation has been used to find out the relationship between the following variables:-

- Correlation between deposits and Loan & advances
- Correlation between deposits and net profit

e) Trend Analysis

It is the process of predicting the value of one variable on the basis of known values of other variable. This is a mathematical measure of predicting the value of dependent variable corresponding to a known value of independent variable basically based on the cause and effect relationship is clearly indicated through regression analysis rather than by correlation analysis. It is based on the assumption that past tendencies will continue in the future.

Here, only two variables trend values are calculation, which are given as below:-

- Trend analysis of total deposit
- Trend analysis of loan & advances

This topic can help to forecast future trend of the variables. From analysis of trend, management of commercial bank can make better fund mobilization policy.

Trend analysis can be computed by using least square method as shown below:-

The regression for forecast is taken as,

$$Y = a + bx$$

Where as,

Y = Dependent variables

x = No. of years from mean year

Now, derived that equation into standard form to solve

$$\sum Y = Na + b \sum bx$$

$$\sum xy = a \sum x + b \sum x^2$$

f) Test of Hypothesis

The hypothesis means the presumption or quantitative statement of the population parameter, which may be true or false. In order to make proper decision about the quantitative statement to the population, testing of hypothesis technique is used. An experiment is conducted by using sample information and the hypothesis is rejected, if the results obtained are not improbable, the hypothesis is accepted.

The main objective of this test is to test the significance regarding the parameters of the population on the basis of sample drawn from the population. This test has been conducted on the various ratios related with the banking business.

Generally, following steps are followed for test of hypothesis:-

- Setting of hypothesis
 - Null hypothesis (h_0)
 - Alternative hypothesis (h_1)
- Deciding proper test statistic
- Select the level of significance
- Finding critical region
- Compute the test statistic using observed information
- Make decision

Generally, t-test is used for small sample. In the following study, some of the main hypothesis tests are calculation and decisions are made.

- There is no significance different between the mean ratios of total deposit to total investment of BOKL & NIBL.
- There is no significance different between the mean ratio of loan & advances to total deposit of BOKL & NIBL.

From the following formula, we can test the hypothesis (for t-test)

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where as,

$$s^2 = \frac{1}{n_1 + n_2 - 2} \left\{ \left(\sum X^2 - \frac{(\sum X)^2}{n_1} \right) + \left(\sum Y^2 - \frac{(\sum Y)^2}{n_2} \right) \right\}$$

$$\text{Degree of freedom} = n_1 + n_2 - 1$$

Decision: if the tabulated value of 't' at any significance level at any degree of freedom is greater than calculated value of 't', H_0 is accepted. Otherwise H_0 is rejected.

3.5. Limitation of the methodology

Every problem can be solved by various ways. Research methodology is the systematic way to solve the research problem. In the way to solve the problem, there may be some limitation of the methodology used, are described below.

- This study is based on historical data and forecasts the future, i.e. the research design for this study is historical. Past may not be the genesis for the future but the past may not happen in the future in the same manner.
- The population consists of only 25 companies, which are listed in NEPSE, and the total number of samples is only two commercial banks, i.e. BOKL & NIBL. Therefore, the samples do not cover the industry completely.
- The sources of data have been secondary and mainly collected from related bank websites of NEPSE. So, the accuracy of the methodology based on secondary data.
- The data analysis tools used in statistical and financial concepts. The values provided by such tools may be approximation values only.

CHAPTER-4

DATA PRESENTATION AND ANALYSIS

In this section raw data of selected banks, were collected from various sources and changed to an understandable presentation using tools as mentioned in the previous chapter i.e. research methodology. This chapter is the heart of this study, which was fully related to analysis and interprets various outcomes. The analysis of data consists of organization, tabulating and performing of deposit and its mobilization policy.

Data presentation and analysis is the main body of the study. “The main purpose of analyzing the data is to change it from an unprocessed form to an understandable form. The analysis of data consists of organizing, tabulating and performing statistical analysis.”(Wolf and pant, 2001, P: 127). In this chapter, collected data from various sources have presented and analyzed using various financial and statistical tools.

4.1 Analysis of Deposit

Deposits are the main sources of resources to meet increasing demand of financial needs. It is the amount which is deposited by people in banks and other financial institution for keeping safely with an obligation to get interest from it. Basically the existence of commercial banks depends upon the mobilization of deposit amounts. Commercial banks cannot act in the absence of adequate deposits. If there is large volume of deposit in commercial bank, than it can generate higher volume of profit by investing higher amount in different projects. That is why commercial banks first attention is always to mobilize as much

deposits as possible. Nowadays due to tough competition in banking sector banks has also changed its policy in interest rate in deposit to increase deposit and lending policy.

Bank deposits arise in two ways. The first is when the banker receives cash and credits a customer's account, it is known as a primary or a simple deposit. Such primary deposit is made from the initiative of depositors. The second, when the bank advances loans, discounts bill, provides overdraft facilities and makes investments through bonds and securities. This is called derived deposit or derivative deposit.

4.1.1 Analysis of Liquidity position of the banks

Commercial banks must maintain satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for withdrawal, pay obligation in the time and convert non-cash assets to cash, to satisfy immediate needs without any loss to bank and consequent impact on long run profit. The following ratios have been calculated.

4.1.1.1 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most-liquid current assets that constitute the bank's first line of defense. This ratio measures the percentage of most-liquid fund with the bank to make immediate payment to the depositors. This ratio derived by dividing cash & bank balance by total deposits.

In the table no.1 cash & bank balance to total deposit ratio of commercial banks are calculated. Both higher and lower ratios are not desirable. The reason is that if a bank maintains high ratio of cash, it has

to pay interest on deposits and some earnings may be lost. In contrast, if a bank maintains low ratio of cash, it may be fail to make payment for the demands of the depositors. So, sufficient and appropriate cash reserve should be maintained properly. Through the table no. 1 cash & bank balance to total deposit ratio can be analyzed.

Table No.1
Cash & bank balance to total deposit ratio

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	8.12	7.06	10.22	9.09	11.74	9.25	1.63	17.59
NIBL	9.40	12.34	9.97	10.98	11.05	10.73	1.007	9.38

(Appendix no.1 & 4)

The above table shows that the cash and bank to total deposit of both banks are fluctuating trend. BOKL's highest ratio is 11.74% in FY 2008/09 and lowest is 7.06% in FY 2005/06. Similarly, in a case of NIBL, highest ratio is 12.34% in FY 2005/06 and the lowest is 9.40% in FY 2004/05. The mean ratio of NIBL is higher than that of BOKL i.e. 10.73% > 9.25. On the basis of coefficient variance, it can be concluded that NIBL ratio is less consistent than that of BOKL i.e. 17.59% > 9.38%.

The above analysis helps to conclude that the cash & bank balance position of BOKL with respect to deposit is not better against the readiness to serve its customer deposit than that of NIBL. It implies the better liquidity position of NIBL. In contrast, a high ratio of non earning cash & bank balance may be unfit to invest its funds in income generating areas. Thus, BOKL may invest in more productive sectors like short term

marketable security, treasury bills etc. ensuring enough liquidity which will help the bank to improve its profitability.

4.1.1.2 Fixed Deposit to Total Deposit Ratio

Fixed deposit is high interest bearing obligation for any commercial bank. Fixed deposit can be the major source for the bank to invest in different profitable sector. As this is the highest interest bearing deposit, greater position of fixed deposit in total deposit increase the cost. However if the amount of fixed deposit is properly invests in loans and advance, it can be profitable. So, the proper utilization of fixed deposit is also very important. This ratio is computed to find out the percentage of fixed deposit with respect to the total deposit. This ratio can be computed by dividing fixed deposit by total deposit.

Table No. 2
Fixed deposit to total deposit ratio

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	32.07	25.84	24.52	23.39	23.99	25.96	3.16	12.17
NIBL	22.53	28.59	30.69	23.06	17.46	24.49	4.59	18.76

(Appendix no.1)

From the above table the fixed deposit to total deposit ratio of BOKL is decreasing trend while as NIBL is fluctuating trend. The highest ratio of BOKL 32.07% is in FY 2004/05 and the lowest is 23.99% in both FY i.e. 2007-2009. Similarly in case of NIBL, the highest ratio is 30.69% in FY 2006/07 and the lowest ratio is 17.59% in FY 2008/09. The mean ratio of BOKL is highest than that of NIBL i.e. 25.92% > 24.49%. On the basis of coefficient of variance, it can be concluded that NIBL ratio is less

consistent than that of BOKL i.e. 18.76%>12.17%.It means that BOKL is better in fixed deposit collection.

4.1.1.3 Saving Deposit to Total Deposit Ratio

This ratio is calculated to find out the position of saving deposit with respect to the total deposit. Saving deposit is deposited by public in banks institution with an explicit objective of increasing their wealth. So interest rate plays a significant role. Saving deposit is the deposit in which the interest rate lowers than those of fixed deposit and can not withdraw as freely as current account. So saving deposits stands midway between fixed and current deposit. The ratio can be computed by dividing saving deposit by total deposit

The following table no. 3 shows the ratio of saving deposit to total deposit of BOKL & NIBL

Table No.3
Saving deposit to total deposit ratio

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	38.41	43.69	44.61	41.66	38.46	41.37	2.58	6.23
NIBL	47.03	42.70	43.87	39.73	32.89	41.24	4.78	11.60

(Appendix no.1)

The above table shows that the ratio of saving deposit to total deposit of BOKL is raising and falling trend in case of NIBL is fluctuation trend. The highest ratio of BOKL is 44.61% in FY 2006/07 and the lowest ratio is 38.41% in FY 2004/05 where as the highest ratio

of NIBL is 47.03% in FY2004/05 and the lowest ratio is 32.89% in FY 2008/09. The mean ratio of BOKL is slightly higher than NIBL i.e. 41.37% > 41.24%. It means that the BOKL has high saving deposit as compare to NIBL. On the other hand NIBL is less consistent than BOKL because of higher C.V. i.e. 11.60% > 6.23%.

4.1.2 Analysis of the Assets Management position of the Bank

Any commercial bank must be able to manage high profit, to satisfy its customers and for existence. The ratio measures the efficiency of commercial bank in its fund mobilization. By the help of following ratios, assets management ability of BOKL and NIBL banks has been analyzed and comparison assets management ratio measures how efficiently the bank manages the resources at its command.

4.1.2.1 Total Investment to Total Deposit ratio

A commercial bank may mobilize its bank deposit by investing its fund in different securities issued by government and non-government, financial and non-financial institutions. Now effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement, central bank's norms etc. are to be considered in general. The lowest ratio is the indicator of low success to mobilize the banking fund as investment and vice-versa. This ratio indicates the proportion of deposit utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. This ratio can be computed by dividing total investment by total deposit.

Table no. 4 shows the ratio of investment to total deposit of

BOKL & NIBL

Table No.4

Total investment to total deposit ratio

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	28.95	32.22	24.15	20.24	13.67	23.85	6.52	27.35
NIBL	28.58	29.97	26.56	11.24	18.86	13.04	7.04	30.56

(Appendix no.2)

The above table reveals that NIBL's total investment to total deposit ratios have been fluctuation trend the highest ratio is 29.97% in FY 2005/05 and the lowest ratio is 11.24% in FY 2007/08. On the other hand the BOKL's has shown decreasing trend from FY 2006/07 to FY 2008/09 and the highest ratio is 32.22% in FY 2008/09. On the basis mean ratios, it can be said that BOKL's capacity to mobilize its deposits in total investment is slightly better than that of NIBL because its mean ratio is higher than NIBL i.e. 23.85% > 23.04%. Observing the C.V. ratio we can further conclude that NIBL ratio during the study period have seen quite more inconsistent than of BOKL because of its higher C.V. i.e. 30.56% > 27.35%.

4.1.2.2 Loan and Advances to Total Deposit ratio

Loan and advances is the major area of fund mobilization of commercial banks. This ratio shows how efficiently the outsider's fund or total deposits have been utilized by the bank for the profit realization, loan and advances refers to total loan and advance and overdraft and total

deposits to all the deposit. Higher the ratio, higher will be the utilization of deposits on the loan and advances and vice-versa. It is computed by dividing loan & advances by total deposit.

The following table no.5 shows the loan & advances of BOKL & NIBL

Table No.5
Loan & advances to total deposit

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
NIBL	73.33	69.62	72.56	79.89	78.86	74.85	3.91	5.22
BOKL	68.87	71.42	78.25	80.51	78.78	75.57	4.56	6.03

(Appendix no.2)

The above table shows that ratio of BOKL and NIBL loan & advances to total deposit are rising and falling trend during the study period. The highest ratio of NIBL is 79.89% in FY 2007/08 and the lowest ratio is 69.62% in FY 2005/06. Likewise BOKL highest ratio is 80.51% in FY 2007/08 and the lowest ratio is 68.87% in FY 2004/05. On the other hand, when the mean ratios of loan & advances of BOKL and NIBL is compare, BOKL seems to be good to mobilize its total deposit as loan & advances in comparison to NIBL. The mean ratio of BOKL is 75.57% where as NIBL is 74.85% On the basis of C.V. we can say that BOKL is less consistent than that of NIBL i.e. 6.03% > 5.22%. It is clear that BOKL should be noted that in the process of loan management of bank assets, so many factors are to consider such as risk analysis, diversification, social responsibility, bank credit policy, compensation policy, limits of lending power etc.

4.1.2.3 Loan and advance to saving deposit ratio

Saving deposit is the second high interest rate bearing deposit. This ratio measures how many times the amount is utilized in loan and advance in comparison to saving deposit. It is calculated by dividing loans and advance by saving deposit. High ratio reveals high efficiency in utilizing fund but it should be noted that too high ratio might not be better from its liquidity point of view. It can be computed by dividing loan & advances by saving deposit.

Table no. 6 shows the ratio of loan & advance to saving deposit of BOKL & NIBL.

Table No. 6
Loan & advance to saving ratio (times)

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	1.79	1.63	1.75	1.93	2.05	1.83	1.44	.78
NIBL	1.56	1.63	1.65	2.01	2.39	1.85	3.15	1.70

(Appendix no.2)

From the above table it shows that the loan & advances to saving ratio of BOKL is increasing trend from the FY 2006 to 2009 where as NIBL is in increasing trend. The highest ratio of BOKL is 2.05 in FY 2008/09 and the lowest ratio is 1.63 in FY 2005 likewise the highest ratio of NIBL is 2.39 in FY 2008/09 and the lowest ratio is 1.59 in FY 2004/05. The mean ratio of NIBL is slightly higher than BOKL i.e. $1.85 > 1.83$. On the basis of C.V. NIBL is less consistent than BOKL because C.V. of NIBL is higher than BOKL i.e. $1.70\% > .78\%$.

4.1.2.4 Loan and advances to Fixed deposit ratio

Fixed deposit is high interest bearing obligation for any commercial bank. Fixed deposit is long-term fund collecting from banks. Loan and advances is a major source of earning interest, the ratio measure how many times the fixed deposit is utilized in loan and advance for income generating purpose. It is computed by dividing loan & advances by fixed deposit.

Table no. 7 shows the ratio of loan & advance to fixed deposit ratio of BOKL & NIBL.

Table No.7
Loan & advance to fixed deposit ratio (times)

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	2.15	2.76	3.19	3.44	3.28	2.96	.42	14.26
NIBL	3.25	2.43	2.36	3.46	4.48	3.19	.77	24.31

(Appendix no.2)

The above table shows that the loan & advance to fixed deposit ratio of BOKL is increasing and decreasing trend where as NIBL is decreasing and increasing trend. The highest ratio of BOKL is 3.44 in FY 2007/08 and the lowest ratio is 2.15 in FY 2004/05. Likewise the highest ratio of NIBL is 4.48 in FY 2008/09 and the lowest ratio is 2.36 in FY 2006/07. The mean ratio of NIBL is higher than BOKL i.e. $3.19 > 2.96$. On the other hand NIBL is less consistent than that of BOKL because of higher C.V. i.e. $24.31\% > 14.26\%$.

4.1.3 Analysis of the Profitability of the banks

Profit is the difference between revenues and expenses. Profit is ultimate output of business enterprises and it will have no future if it fails to make sufficient profit. Commercial bank's, financial institution's primary objectives is to earn maximum profit. They must earn sufficient income in order to meet the cost of running. Profit is the indicator of efficient operation of banks, financial instructions. They acquire profit by providing different services to its customer or by making investment on various sectors. Profitability ratio measures the efficiency of firm. Higher ratio indicates higher efficiency and vice-versa.

4.1.3.1 Net profit to Total Deposit

Total deposit refers to all the deposit (i.e. fixed, saving, current deposits etc.) made by the customers. Deposits made by the customer are the major sources that can be mobilized by investing in different profitable areas for making profit. The ratio shows the % profit earned on total deposit. This ratio indicates how efficiently the collected deposit is utilized in order to make profit. This ratio can be computed by dividing net profit by total deposit.

Table no. 8 shows the ratio of net profit to total deposit of BOKL & NIBL.

Table No.8
Net profit to total deposit ratio

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	1.56	1.93	2.12	2.28	2.41	2.06	.25	12.33
NIBL	1.63	1.85	2.05	2.02	1.93	1.97	.15	7.96

(Appendix no.3)

The above table shows that the net profit to deposit ratio of BOKL is in increasing trend where as the NIBL's is in fluctuating trend. The highest ratio of BOKL is 2.41% in FY 2008/09 and the lowest ratio is 1.56% in FY 2004/05. The highest ratio of NIBL is 2.05% in FY 2006/07 and the lowest ratio is 1.63% in FY 2004/05. The mean ratio of BOKL is higher than NIBL i.e. 2.06% > 1.97%. It means that BOKL has earned more profit as compare to NIBL. On the basis of C.V. BOKL is less consistent than NIBL i.e. 12.33% > 7.97%.

4.1.3.2 Return on Loan & advances ratio

This ratio measures the overall effectiveness of loan & advances in generating profit. High ratio is desirable for banks. The banks having higher ratio is desirable for banks sound credit performance and with lower bad debts. This ratio is measured by dividing net profit by loan & advances.

Table no. 9 shows the ratio of return on loan & advance of BOKL & NIBL

Table No.9
Return on loan & advance ratio

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	2.26	2.70	2.71	2.84	3.05	2.71	.26	9.55
NIBL	2.21	2.66	2.82	2.53	2.44	2.53	.21	8.13

(Appendix no.3)

The table shows the ratio on return on loan & advance of BOKL is increasing trend the highest ratio of BOKL is 3.05% in FY 2008/09 and the lowest ratio is 2.26 % where as the ratio of NIBL is in fluctuating trend the highest ratio of NIBL is 2.82% in FY 2006/07 and the lowest ratio is 2.21 % in FY 2004/05. The mean ratio of BOKL is greater than NIBL i.e. 2.71% > 2.53%. It shows that the BOKL has played effective role to earn profit from loan & advances than NIBL. On the basis of C.V. BOKL is less consistent than NIBL.

4.1.3.3 Interest income to loan & advance ratio

Loan & advances refer to the major part of sales of the banking services. Sound credit policy with minimal amount of non-performing credit reveals the success of banks in having better performance. In return, the banks charge interest on their amount of lending. Thus, a higher ratio is desirable for all kinds of financial institutions. This ratio can be computed by dividing interest income by total loan & advances.

Table no. 10 shows the ratio of interest to loan & advance of BOKL & NIBL

Table No.10

Interest to Loan & advances ratio

Banks	Fiscal Year					Mean	S.D.	C.V. (%)
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	5.91	5.47	4.95	4.84	5.19	5.27	1.95	7.32%
NIBL	5.09	5.17	5.06	4.37	12.49	6.44	3.04	47.25

(Appendix no. 3)

The comparative table reveals that the highest ratio of BOKL on interest to loan & advances is 5.91% in FY 2004/05 and the lowest ratio is 4.84% in FY 2007/08 likewise the highest ratio of NIBL is 12.49% in FY 20087/09 and the lowest ratio is 4.37% in FY 2007/08. The mean ratio of NIBL is higher than BOKL i.e. 6.44% > 5.27%. It means that the role of NIBL is better to collect its interest income from loan & advances than BOKL. On the other hand NIBL C.V. is higher than BOKL i.e. 47.25% > 7.32%. So, NIBL is less consistent.

4.1.4 Market Indicator ratio

Market indicator ratios or market value ratios are useful in detecting the position or value of the banks in the market. Under it, following ratios have been calculated.

4.1.4.1 Market price per share (MPS)

Market price of share is determined on the basis of demand and supply of shares in the secondary market. Various factors affect on the formation of share prices. Those factors may be both the intrinsic (company specific) factors and external factors including international economic scenarios or trends. Higher price is desirable for banks. It is also known as market value per share.

Table no.11 shows the Market price per share of BOKL & NIBL.

Table No. 11
Market Price Per Share (Rs.)

F/Y	2004/05	2005/06	2006/07	2007/08	2008/09	Average (Rs.)
Banks						
BOKL	430	850	1375	2350	2433	1487.61
NIBL	800	1260	1729	2450	2503	1748.4

Source: Annual reports of respective banks.

From the above table the market price per share of both banks are in increasing trend. The highest MPS of BOKL is Rs. 2433 and the lowest price is Rs. 430 where as the highest price of NIBL is 2503 and the lowest price is Rs.800 in the FY 2004/05 & 2008/09 respectively. The mean average price of NIBL is higher than BOKL i.e. $1748.4 > 1487.61$ it means that the image of NIBL in public is better than that of BOKL. But People's perception and expectation about performance and prices of both banks is good & positive.

4.1.4.2 Book value per share

Book value per share represents the total net worth left over to the share of each common stock after deducting all external liabilities and provisions. The more the value per share better will be the performance and stronger will be the firm's position. It is obtained by dividing the total book net worth of a firm by the number of common stocks outstanding. The ratio can be calculated by book value per share by total no. of outstanding common stock.

The table no.12 shows the book value per share of BOKL & NIBL

Table No.12
Book Value Per Share (Rs.)

F/Y	2004/05	2005/06	2006/07	2007/08	2008/09	Average
Banks						(Rs.)
BOKL	213.60	230.67	164.68	222.51	251	216.5
NIBL	201	240	234	233	301	241.8

Source: Annual reports of respective banks.

On the basis of above calculation it shows that the book value per share of both banks is in fluctuating trend. The average book value per share of NIBL is highest than that of BOKL i.e. Rs.241.8>Rs.216. Therefore, BOKL can be regarded of having the lowest book value per share as compare to NIBL.

4.1.4.3 Price-Earning ratio (P/E ratio)

It indicates the performance (efficient utilization of funds collected) of the commercial banks. It indicates the number of times the earnings is turnover with respect to price in the market. Higher ratio is desirable since increase in earnings is associated with the increase (growth) in stocks. However, the high ratio obtained by dividing the low price by very low earning is not considered good at any cost. The validity of higher P/E ratio lies only when both the market price and earnings are growing. It can be computed by dividing market price per share by earning per share.

The following table shows the Price-Earning Ratio of BOKL & NIBL

Table No.13
Price –Earning Ratio (Times)

F/Y	2004/05	2005/06	2006/07	2007/08	2008/09	Average
Banks						
BOKL	14.29	19.46	31.61	39.21	43.25	29.56
NIBL	20.25	21.23	27.63	42.33	54.15	33.12

Source: Annual reports of respective banks.

The above calculation shows that the price-earning ratio of both banks is in increasing trend. The average P/E ratio of NIBL is higher than that of BOKL i.e. 33.12% > 29.56%. Despite of the highest ratio we cannot regard it as the best performing bank because the rate of price and earning were deteriorating over the years. Therefore, the P/E ratios of BOKL can be considered better.

4.1.5 Growth Ratio

Growth ratios are directly related to the fund mobilization and investment decision of the bank. This ratio represents how well the commercial banks are maintaining their economic and financial position. Under this topic, three growth ratio they are, total deposit, loan & advances and net profit are shown in the table no. 14, 15 and 16 respectively with their figure also. The ratio can be calculated dividing the last period figure by the first period figure then referring to the compound interest tables. Higher ratio generally indicates the better performance of the banks, and vice-versa

Table No.14
Growth ratios of total deposits
Of BOKL & NIBL

Banks	Total deposit (Rs. In million)					Growth rates (%)
	Fiscal Year					
	2004/05	2005/06	2006/07	2007/08	2008/09	
BOKL	8975.78	10485.36	123889.93	15833.74	19186.95	20.91
NIBL	14254.57	18927.30	24488.85	34451.730	46698.10	34.45

(Appendix no.5)

The above table shows that the growth ratio of deposit of BOKL is significantly lower the NIBL. The growth ratio of NIBL's is 34.45% and BOKL' is 16.41%.It indicates that the NIBL role is better to collect more deposits year by year than BOKL.

The above calculated growth ratio of total deposit of both banks are shown in figure no.1 below

Figure No.1
Growth ratio of Deposit

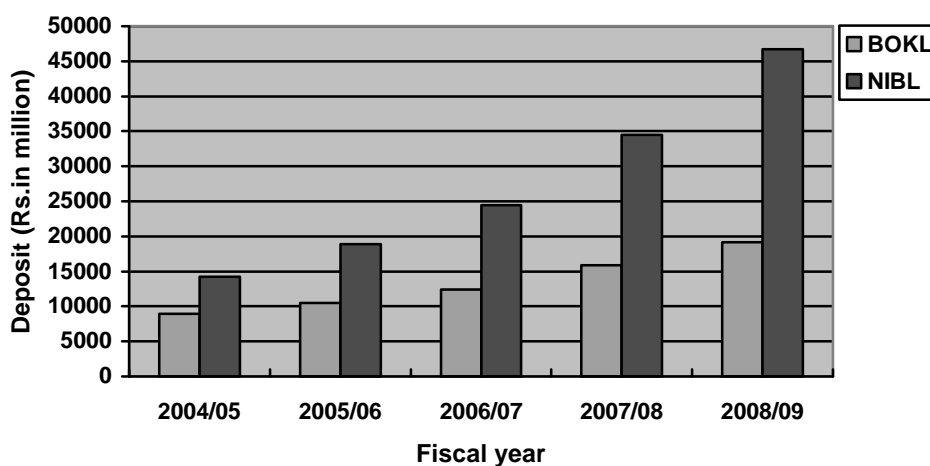


Table No.15
Growth ratio of Loan & advance
Of BOKL & NIBL

Banks	Total loan & advance (Rs. In million)					Growth rates (%)
	Fiscal Year					
	2004/05	2005/06	2006/07	2007/08	2008/09	
BOKL	6882.04	7488.70	9694.10	12747.72	15116.25	25.04
NIBL	10453.16	13178.15	17769.11	2752.30	36827.16	37

(Appendix no.5)

The above table shows that the growth ratio of loan & advance of BOKL is significantly lower than NIBL. The growth ratio of NIBL's is 37% and BOKL's is 25.04%. It indicates that the role of BOKL has failed to increase loan & advances as compared to NIBL.

The above calculated growth ratio of loan & advances both banks are shown in figure no.2 below.

Figure No.2
Growth ratio of Loan & advance

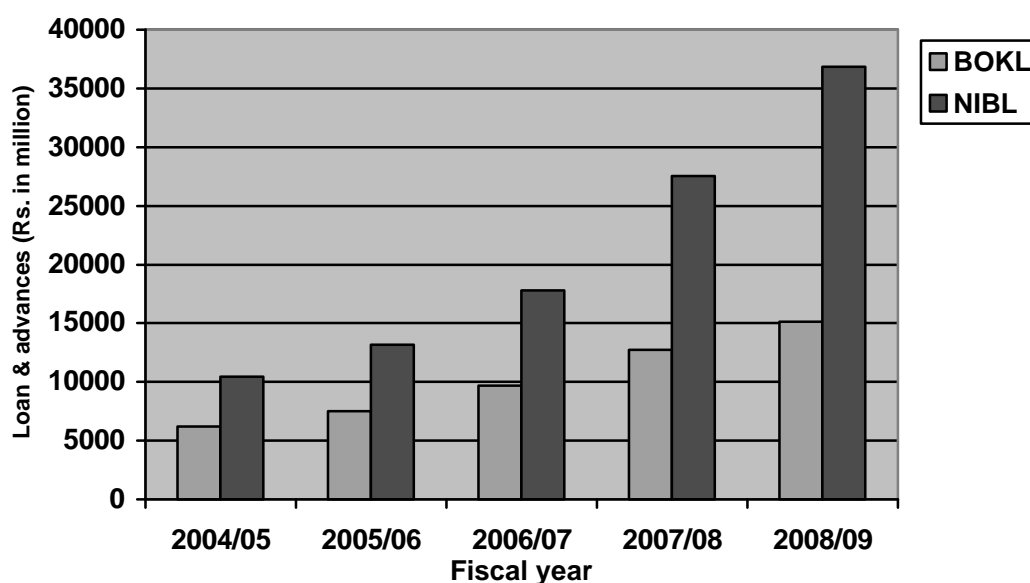


Table No.16
Growth ratio of Net profit

Banks	Total deposit (Rs. In million)					Growth rates (%)
	Fiscal Year					
	2004/05	2005/06	2006/07	2007/08	2008/09	
BOKL	140	202.44	262.44	361.49	461.73	34.76
NIBL	232.15	350.54	501.41	696.73	900.62	40.34

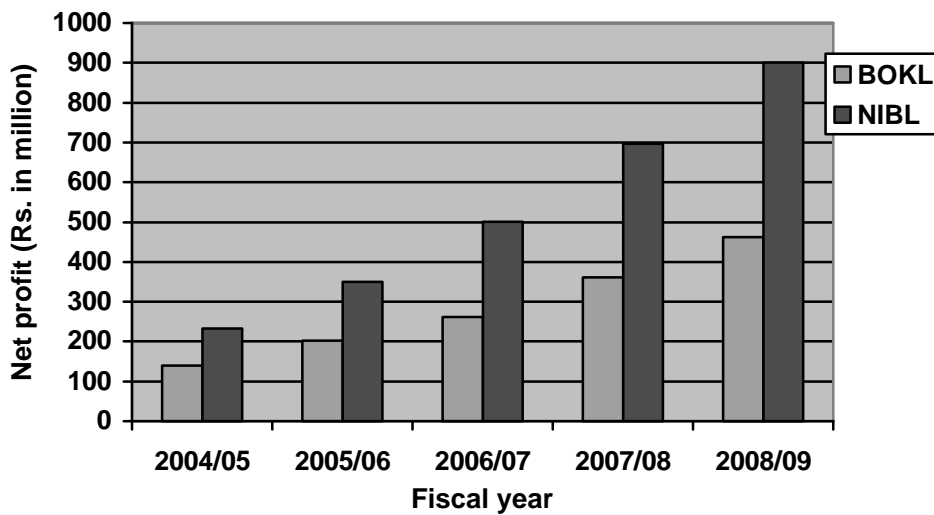
(Appendix no.5)

The comparative table listed above reveals that the growth ratio of net profit of BOKL seems to be poor to maintain higher growth ratio than NIBL. BOKL's growth ratio of net profit is 34.76% only which is significantly lower than that of NIBL i.e. 41.34%. Therefore the above

table shows that the role of NIBL's performance is better in increasing net profit compare to BOKL.

The above calculated growth ratio Net profit of both banks are shown in figure no.3 below.

Figure No. 3
Growth ratio of Net profit



Finally, from above analysis, it can be concluded that during the study period BOKL performance should improve regarding collection of deposit, granting loan & advance and increasing profitability. BOKL has failed to maintain higher growth ratio on deposits, loan & advances and net profits as compare to NIBL.

4.2 Statistical Analysis:-

For supporting the study, statistical tool such as mean, standard deviation, coefficient of variation, Correlation, trend analysis and hypothesis etc. tools have been used under it.

4.2.1 Trend analysis and projection for next five years

It is the process of predicting the value of one variable on the basis of known values of other variable. This is a mathematical measure of predicting the value of dependent variable corresponding to a known value of independent variable basically based on the cause and effect relationship is clearly indicated through regression analysis rather than by correlation analysis. It is based on the assumption that past tendencies will continue in the future.

Here, only two variables are calculated i.e. trend analysis of total deposit and trend analysis of loan & advances.

The projection is based on the following assumption:-

- Other things will remain constant
- Central bank will not change its guidelines to commercial banks.
- The bank will run in present style.
- Least square method is carried out to forecast.

4.2.1.1 Trend analysis of total deposit

Collection of deposits is the main function of a commercial bank. If they provide various facilities for depositor, the deposits will increase. Regarding this topic and effort has been made to calculate the trend

values of deposits of NIBL & BOKL for five years from 2005/05 and forecast for five years till 2014.

The following table no. 17 and figure 4 shows the trend values of 10 years of BOKL & NIBL.

Table No.17
Trend values of total deposit of BOKL & NIBL (2005/2014)
(Rs. in million)

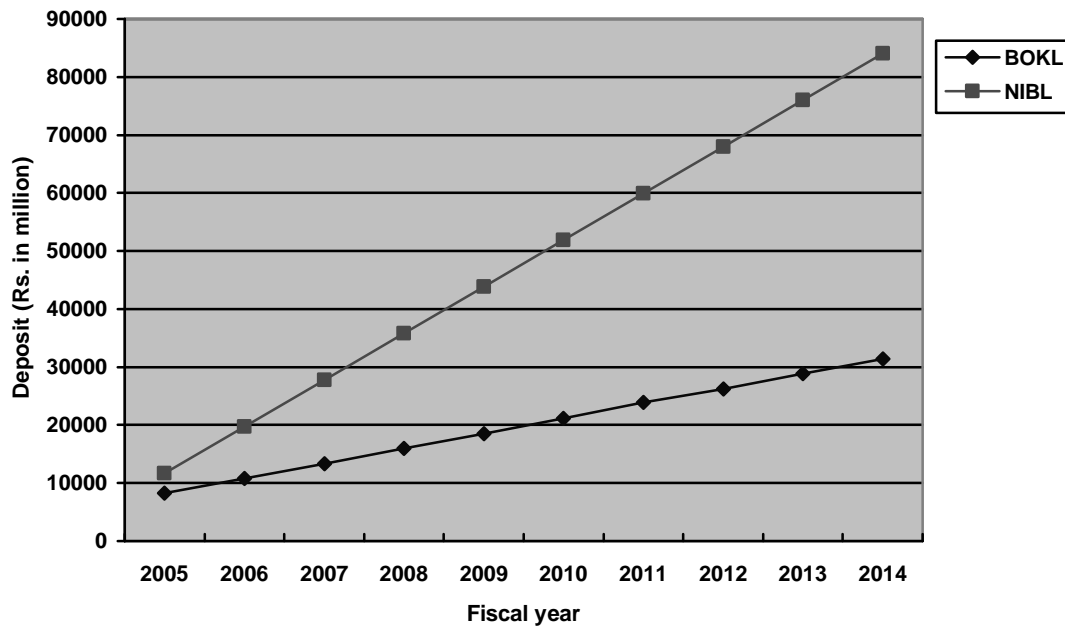
Years	Trend value of BOKL	Trend value of NIBL
2004/05	8220.01	11681.81
2005/06	10797.08	19722.96
2006/07	13374.15	27764.11
2007/08	15951.22	35805.26
2008/09	18528.29	43846.41
2009/010	21105.37	51887.56
2010/011	23682.44	59928.71
2011/012	26259.51	67969.85
2012/013	28836.58	76011.00
2013/014	341413.66	84052.15

(Appendix no.6)

From the above table it is clearly said that the total deposit of both banks are increasing trend. If other thing remains unchanged, the deposit of BOKL will be Rs. 31413.66 in FY 2013/14 million likewise; the deposit of NIBL will be Rs. 84052.15 million in FY 2013/14.

The above calculated trend value of total deposit of both banks are fitted the trend line below.

Figure No. 4
Trend value of total deposit of BOKL & NIBL



In comparison of both banks deposit trend, it is obvious that NIBL’s role for collection of deposit position in relation to the BOKL is proportionately better than that of BOKL.

4.2.1.2 Trend analysis of loan & advance

Here, the trend values of loan & advances of BOKL and NIBL have been calculated five years from 2004 to 2009. The forecast for next five years till 2014 has been also done.

The following table no. 18 and figure 5 shows that trend values of 10 years from 2000 to 2014 of BOKL & NIBL.

Table No.18
Trend values of loan & advances of BOKL & NIBL (2005/2014)
(Rs. in million)

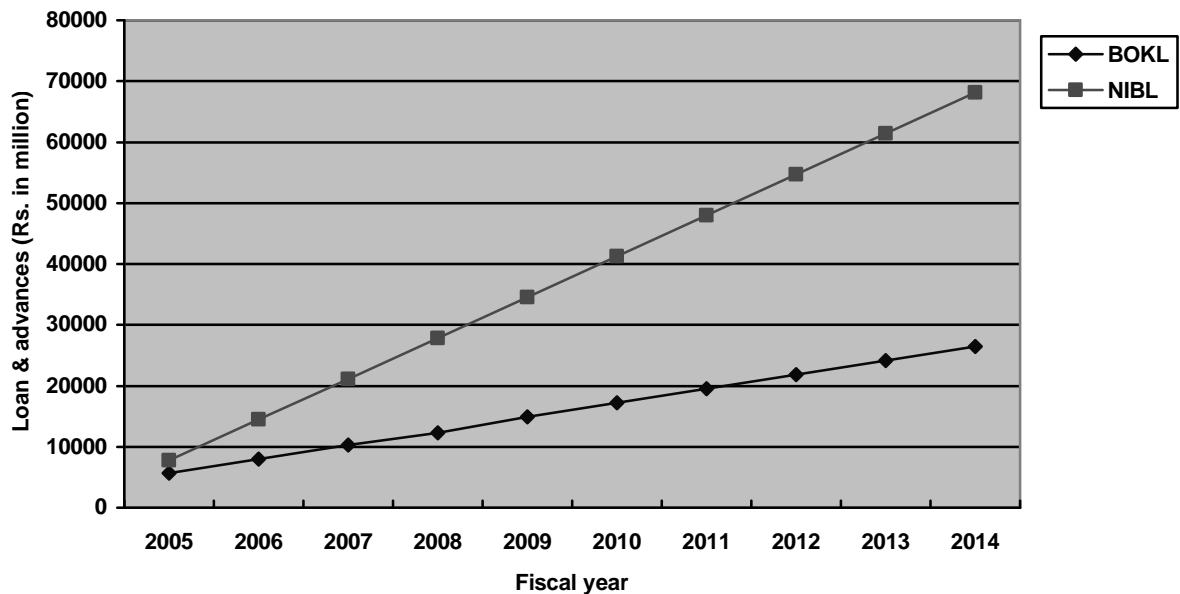
Years	Trend value of BOKL	Trend value of NIBL
2004/05	5620.274	7731.55
2005/06	7933.01	14441.45
2006/07	10245.76	21151.38
2007/08	12258.51	27816.29
2008/09	14871.25	34571.21
2009/10	17192.99	41281.12
2010/11	19496.74	47991.04
2011/12	21809.46	54700.95
2012/13	24122.23	61410.87
2013/14	26434.97	68120.78

(Appendix no.6)

From the above table it is clear that the loan & advances of both banks are increasing trend. If other thing remains unchanged, the deposit of BOKL will be Rs. 26434.97million likewise; the deposit of NIBL will be Rs. 68120.78 million in FY 2013/2014.

The above calculated trend value of loan & advances of both banks are fitted in trend line below.

Figure No.5
Trend value of loan & advance of BOKL & NIBL



In comparison of both banks it is clear that NIBL's role for utilization of deposit as loan & advance will also be better than that of BOKL in future.

4.2.2 Coefficient of Correlation analysis

Correlation may be defined as the linear relationship existing between two variables. We examine the relationship between two variables. The correlation among different variables of a bank is compared to measure the performance of these banks. Correlation refers to the relationship between/among two or more than two variables. Between two variables, increase or decrease in one variable causes increase or decrease in another, than such variables are correlated

variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation

Coefficient between two variables describes the degree of relationship between those variable. It interprets whether two or more variables are correlated positively or negatively. This tool analyzes the relationship between those variables of the bank, which are helpful to make appropriate investment policy regarding deposit collection, fund mobilization and profit maximization of BOKL & NIBL.

The coefficient of correlation is generally denoted by the letter 'r' and is always lies between ± 1 . The value of +1 or -1 denotes perfect positive or negative correlation where as the value of 0 means no correlation at all. The value of 0.7 to 0.999 or -0.7 to -0.999 indicates a high degree of positive or negative correlation. The value of 'r' is ranged 0.5 to 0.699 indicates a moderate degree of correlation where as value of less then 0.5 indicates a low degree of correlation.

4.2.2.1 Co-efficient of correlation between deposit and loan and advance

Deposit have played very important role in performance of commercial bank and similarly loan and advances are very important to mobilize the collected deposits. Coefficient of correlation between deposit and loan & advance measures the degree of relationship between two variables. In this analysis, deposit is independent variable (X) and loan & advance are dependent variables (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as loan & advances in proper way or not.

The following table no.19 shows of 'r', probable error (P.Er) and Correlation of determination (r^2) of BOKL & NIBL during the study period.

Table No. 19

Correlation between deposit and loan and advances

Banks	r	r^2	P.Er.	6 P.Er.
BOKL	.994	.997	.0018	.0108
NIBL	.998	.996	.0012	.0072

(Appendix no. 7)

From the above table loan & advances is dependent variable (Y) and deposit is independent variable (X). In case of BOKL, it is found that co-efficient of relation between deposits (independent) and loan and (dependent) value of 'r' is .994, it shows positive relationship between these two variables. Moreover, coefficient of determination (r^2) is .997 i.e. 99 % of variation in the dependent variable loan & advances has been expanded by independent variable i.e. deposits. On the other hand, considering the value of 'r' and comparing the value of P.Er., 6 P.Er. with 'r' is highly greater i.e. $.994 > .0108$ which reveals that the value of 'r' is significant. In other words, there is highly significant relationship between deposit and loan & advances in case of BOKL.

Similarly, in case of NIBL, the correlation coefficient between deposit and loan & advances (as independent and dependent) variables 'r' is .998, which shows there is positive correlation between two variables. The coefficient of determination (r^2) is .9960 it means 99.60% dependent variable (loan & advances) has been expanded by the independent variable (deposit). By the application of probable error (P.Er) i.e. .002

and 6 P.E.r. i.e. .0072 is lower than correlation coefficient 'r' i.e.998, which shows the relationship between deposit and loan & advances is highly significant. The NIBL has played successful role in mobilizing their funds in proper way as loan and advances.

Finally, we can say that from the above analysis, there is positive relationship between total deposits and loan & advances of both banks. The value of (r^2) shows high percentage in the dependent variable has been expanded by the independent variable. The relationship is highly significant. From the calculation, we can conclude that both banks has played successful role to mobilize its deposit in proper way but slightly NIBL is better than BOKL.

4.2.2.2 Co-efficient of correlation between deposit and investment

The co-efficient of correlation between deposit and investment measures the degree of relationship between these two variables. An investment is dependent variable (Y) and deposit is independent variable (X) in correlation analysis. The purpose of calculation of correlation of correlation is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between two variables.

The table no. 20 shows the correlation coefficient (r) between investment and total deposit, probable error (P.Er.) and correlation of determination (r^2) of BOKL and NIBL during study.

Table No.20
Correlation coefficient between deposit and investment
Of BOKL & NIBL

Banks	r	r^2	P.Er.	6 P.Er.
BOKL	-0.1745	.0304	.2925	1.75
NIBL	.957	.916	.025	.15

(Appendix no.7)

From the above table, investment is dependent variable (Y) and deposit is independent variable (X). In case of BOKL, it is found that coefficient of relation between deposits (independent) and investment (dependent) value of 'r' is -.0174, it shows negative relationship between these two variables. Moreover, coefficient of determination (r^2) is .0304 i.e. 3 % of variation in the dependent variable investment has been expanded by independent variable i.e. deposits. On the other hand, considering the value of 'r' and comparing the value of P.Er., 6 P.Er. is highly greater than 'r' i.e. $1.75 > -.01745$ which reveals that the value of 'r' is insignificant. In other words, there is highly insignificant relationship between deposit and investment in case of BOKL.

Similarly, in case of NIBL, the correlation coefficient between deposit and investment (as independent and dependent) variables 'r' is .957, which shows there is positive correlation between two variables. The coefficient of determination (r^2) is .916 it means 91.60% dependent variable (investment) has been expanded by the independent variable (deposit). By the application of probable error (P.Er) i.e. .025 and 6 P.Er. i.e. .15 is lower than correlation coefficient 'r' i.e. .957, which shows the relationship between deposit and investment is highly significant. The NIBL has played successful role in mobilizing their funds.

Finally, we can say that from the above analysis, in case of BOKL, there is negative relationship between deposit and investment and the other hand there is positive relationship between total deposits and investment of NIBL. The value of (r^2) shows high percentage in the dependent variable has been expanded by the independent variable. In case of BOKL the role to mobilize deposit as investment is not good where as NIBL has played successful role to mobilize its deposit as compare to the BOKL.

4.2.3 Test of Hypothesis

The hypothesis means the presumption or quantitative statement of the population parameter, which may be true or false. In order to make proper decision about the quantitative statement to the population, testing of hypothesis technique is used. An experiment is conducted by using sample information and the hypothesis is rejected, if the results obtained are not improbable, the hypothesis is accepted.

The main objective of this test is to test the significance regarding the parameters of the population on the basis of sample drawn from the population. This test has been conducted on the various ratios related with the banking business.

Generally, following steps are followed for test of hypothesis:-

- Setting of hypothesis
 - Null hypothesis (h_0)
 - Alternative hypothesis (h_1)
- Deciding proper test statistic
- Select the level of significance

- Finding critical region
- Compute the test statistic using observed information
- Make decision

Generally, t-test is used for small sample. In the following study, some of the main hypothesis tests are calculation and decisions are made.

4.2.3.1 There is no significant difference in the mean ratio of loan & advances to total deposits ratio of BOKL & NIBL.

Let, loan & advances to total deposits ratio of BOKL & NIBL be X and Y respectively.

Formulation of hypothesis:-

Null hypothesis (H_0): $\bar{x} = \bar{y}$

(i.e. there is no significant difference between mean ratios of loan & advances to total deposits of BOKL & NIBL.)

Alternative hypothesis (H_1): $\bar{x} \neq \bar{y}$

(i.e. there is significant difference between mean ratios of loan & advances to total deposits of BOKL & NIBL)

From the following calculation, we can decide that there is difference or not.

Table No. 21

SN	Year	BOKL		NIBL	
		X	X ²	Y	Y ²
1	2004/05	68.87	4743.08	73.33	5377.29
2	2005/06	71.42	5100.82	69.62	4846.94
3	2006/07	78.25	6123.06	72.56	5264.95
4	2007/08	80.51	6481.86	79.89	6382.41
5	2007/09	78.78	6206.29	78.86	621.90
		$\sum X = 377.83$	$\sum X^2 = 26855.11$	$\sum Y = 374.26$	$\sum Y^2 = 28090.49$

$$\bar{X} = \frac{\sum X}{n_1} = \frac{377.83}{5} = 75.57$$

$$\bar{Y} = \frac{\sum Y}{n_2} = \frac{374.26}{5} = 74.85$$

From the following formula, we can test the hypothesis (for t- test)

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$= \frac{75.57 - 74.85}{\sqrt{22.55 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= \frac{0.73}{\sqrt{22.5 \times \frac{2}{5}}}$$

$$= \frac{0.73}{3.003}$$

$$t = 0.243$$

Where as,

$$\begin{aligned} S^2 &= \frac{1}{n_1 + n_2 - 2} \left\{ \left(\sum X^2 - \frac{(\sum X)^2}{n_1} \right) + \left(\sum Y^2 - \frac{(\sum Y)^2}{n_2} \right) \right\} \\ &= \frac{1}{n_1 + n_2 - 2} \left\{ \left(28655.11 - \frac{(377.83)^2}{5} \right) + \left(28090.49 - \frac{(374.26)^2}{5} \right) \right\} \\ &= \frac{1}{8} (104.008 + 76.38) \\ &= 22.55 \end{aligned}$$

Degree of freedom (d.f) = $n_1 + n_2 - 2 = 8$

Level of significance (α) = 5%

Critical value: the tabulated of 't' at 5% level of significance for two tailed test at 8 d.f. is 2.306

Decision:

Since the calculated value of 't' is 0.243 is lower than the tabulated value of 't' i.e. 2.306. So H_0 is accepted. In other word, there is no significant different between mean ratios of loan & advances to total deposit of NIBL & BOKL.

4.2.3.2 There is no significant difference between the mean ratios of investment to total deposit

Let, Investment to total deposits ratio of BOKL & NIBL be X and Y respectively.

Formulation of hypothesis:-

Null hypothesis (H_0): $\bar{x} = \bar{y}$

(i.e. there is no significant difference between mean ratios of investment to total deposits of BOKL & NIBL.)

Alternative hypothesis (H_1): $\sim_x \neq \sim_y$

(i.e. there is significant difference between mean ratios of investment to total deposits of BOKL & NIBL)

From the following calculation, we can decide there is difference or not.

Table no.22

S.N.	Year	BOKL		NIBL	
		X	X^2	Y	Y^2
1	2004/05	28.95	838.10	28.58	816.82
2	2005/06	32.22	1038.13	29.97	898.20
3	2006/07	24.15	583.22	26.56	705.43
4	2007/08	20.24	408.66	11.24	126.34
5	2007/09	13.67	186.87	18.86	355.70
		$\sum X = 119.23$	$\sum X^2 = 3055.98$	$\sum Y = 115.21$	$\sum Y^2 = 2902.249$

$$\bar{X} = \frac{\sum X}{n_1} = \frac{119.23}{5} = 23.846$$

$$\bar{Y} = \frac{\sum Y}{n_2} = \frac{115.21}{5} = 23.042$$

From the following formula, we can test the hypothesis (for t- test)

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{23.846 - 23.042}{\sqrt{57.58 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= \frac{0.822}{4.799}$$

$$t = .1713$$

Where as,

$$\begin{aligned} S^2 &= \frac{1}{n_1 + n_2 - 2} \left\{ \left(\sum X^2 - \frac{(\sum X)^2}{n_1} \right) + \left(\sum Y^2 - \frac{(\sum Y)^2}{n_2} \right) \right\} \\ &= \frac{1}{n_1 + n_2 - 2} \left\{ \left(3055.98 - \frac{(119.23)^2}{5} \right) + \left(2902.49 - \frac{(115.21)^2}{5} \right) \right\} \\ &= \frac{1}{8} (212.82 + 247.82) \\ &= \frac{1}{8} \times 460.64 \\ &= 57.58 \end{aligned}$$

Degree of freedom (d.f) = $n_1 + n_2 - 2 = 8$

Level of significance (a) = 5%

Critical value: the tabulated of 't' at 5% level of significance for two tailed test at 8 d.f. is 2.36

Decision:

Since the calculated value of 't' is 0.1713 is lower than the tabulated value of 't' i.e. 2.306. So H_0 is accepted. In other words, there is no significant difference between mean ratios of investment to total deposit of BOKL & NIBL.

CHAPTER-5

SUMMARY, CONCLUSION AND RECOMMENDATION

Summary

Nepal is one of the least developed countries of the world and has many obstacles for the development. More than 80% of the people are still in rural areas and most of them are not getting even minimum physical facilities that are necessary for human being. The service sector's contribution for total GDP is increasing per year. The reason behind Nepal's underdeveloped economy is not due to lack of resources but due to not applying effective role in utilizing the available resources.

For the economic development without inflationary pressure in the economy, mobilization as well as canalization of savings in the productive is important. No doubt commercial banks can play a crucial role for the economic development by formulation of capital, which is key variable in the economic development of a country. Scattered resources hold no meaning unless and until, they are mobilized and utilized efficiently in some productive sector. Commercial banks contribute to the process of capital formation by converting dispersed savings into meaning capital investment in order aid industry, trade, commerce and agriculture for the economic development of a nation. It should be forgotten that a country could hardly achieve its good economic development without a strong capital base. Commercial banks play an important role in performing such base for financial and economic development by way of deposit mobilization. It is quite true that a strong financial institution is of great need in the developing country like Nepal. Because all the economic conditions are based on the

financial institutions and the development of a country depends upon the active role in participation of the banks in the different activities in the country.

Deposits are the obligation of the commercial banks. So, commercial banks should play the effective role in allocating funds in different loan & advances and investment. The purpose of this study is to examine that which bank has played the effective role in mobilizing collected fund as loan & advances and investment.

MAJOR FINDINGS OF THE STUDY

From the analysis of liquidity ratios

- The mean ratios of cash & bank balance to total deposit of NIBL is higher than that of BOKL i.e. $10.73\% > 9.25\%$ This indicates NIBL has enough liquidity to meet contingent liabilities than BOKL and on the basis of C.V. NIBL's ratio is less consistent than that of BOKL's ratio.
- The mean ratio of Fixed deposit to total deposit of BOKL is higher than that of NIBL i.e. $25.92\% > 24.49\%$ which indicates BOKL has played successful role to collect fixed deposit as compare to the NIBL. On the basis of C.V. NIBL is less consistent than that of BOKL
- .The mean ratios of saving deposit to total deposit of BOKL is slightly higher than that of NIBL i.e. $41.37\% > 21.24\%$ This shows that BOKL has better role than that of NIBL in collecting saving from the public. On the basis of C.V. NIBL is less consistent as compare to BOKL.

From the analysis of assets management ratios

- The mean ratio of total investment to total deposit of BOKL is slightly higher than NIBL i.e. $23.85\% > 23.04\%$. On the basis of mean ratio it can be said that BOKL's role to mobilize its deposit is quite effective than that of NIBL. Evaluating from the corner of C.V. ratio we can say that the BOKL is less consistent than that of NIBL. This indicates the role of BOKL for deposit mobilizing for the purpose of income generation as well as liquidity is not better than NIBL.
- The mean ratio of loan & advance to total deposit ratio of BOKL is slightly higher than NIBL i.e. $75.57\% > 74.85\%$ and it is fluctuating trend during the study period. It can be concluded that the role of BOKL is better for mobilize its deposits as loan & advances as compare to NIBL. On the basis of C.V. BOKL is less consistent than NIBL.
- The mean ratio of loan & advance to saving deposit ratio of NIBL is slightly higher than BOKL i.e. $1.85\% > 1.83\%$ It means the role of NIBL to mobilize its saving is better than BOKL. On the other hand NIBL is less consistent than BOKL i.e. $1.73\% > .784\%$.
- The mean ratio of loan & advance to fixed deposit ratio of NIBL is slightly higher than BOKL i.e. $3.19\% > 2.96\%$ It means the role of NIBL to mobilize its saving is better than BOKL. On the other hand NIBL is less consistent than BOKL.

From the analysis of profitability ratios

- The mean ratio of net profit to total deposit ratio of BOKL is slightly higher than NIBL i.e. $2.06\% > 1.89\%$. It means that the role of BOKL's to earn profit in deposit is better than NIBL. On the basis of C.V. BOKL is less consistent than NIBL.

- The mean ratio of net profit to loan advances ratio of BOKL is slightly higher than NIBL i.e. $2.71\% > 2.53\%$. It means that the BOKL's role to earn profit in deposit is better than NIBL. On the basis of C.V. BOKL is less consistent than NIBL.
- The mean ratio of interest to loan & advances of NIBL is higher than BOKL i.e. $6.44\% > 4.34\%$ It means that the role of BOKL's to earn profit in deposit is better than NIBL. On the basis of C.V. BOKL is less consistent than NIBL.

From the analysis of Market Indicator

- The average price, net book value per share and P/E ratio of both banks is in increasing trend. But the average and P/E ratio of NIBL is higher than BOKL.

From the analysis of growth ratio

- The growth ratio of deposit, loan & advances and net profit of both banks is in increasing trend every year. But the growth ratio of NIBL is commendable as compare to that of BOKL.

From the analysis of trend values

- The trend values of deposit and loan & advances of both banks have been increasing trend. But the trend value of NIBL is higher than that of BOKL.

From the analysis of Co-efficient of Correlation

Correlation Coefficient analysis between different variables, which are related to fund mobilization of BOKL & NIBL, reveals that

- The correlation analysis show that the relationship between deposit and loan of BOKL is .994% where as NIBL is .998%. It shows there is positive relationship between deposit and loan & advances of both banks. However NIBL has slightly strong positive relationship as compare to BOKL because NIBL 'r' is greater than that of BOKL i.e. .998%>.994%.And there is significant relationship between deposit and loan & advances of both banks.
- The correlation coefficient analysis of investment and total deposit of BOKL shows the negative relationship between two variables i.e. -.01745% and in the case of NIBL there is positive relationship between two variables i.e. .957%. From the comparison of 'r' and 6 P.Er. there is no significant relationship between two variables and in the case of NIBL there is significant relationship.

From the analysis of hypothesis

- There is no significance different in the mean ratio of deposit to loan & advances and deposit to investment of both banks (i.e. BOKL & NIBL).

CONCLUSION

The commercial banks help to mobilize idle capital in the nation which is the most important factors for the economic growth of the country. So, development of a nation is not imaginable without banking system. Therefore, we can say that banks play a vital role for the development of economy growth of the country. The commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors like tough market competition, instability of political situation, changes in tax policies and NRB rules & regulation in lending policy and the most is frequent Nepal bandh. So, role for deposit mobilization in productive sectors by commercial banks are not effective. That is why they are not earning more profit as they have targeted. Infact, such kind of situation hamper their performance. Deposit is indeed the major organ of commercial banks higher the deposit higher will be the chance of mobilization of funds and profit. But nowadays there is less deposit as the banks have expected. Infact the demand of loan & advances is 3 time higher than deposit .i.e. $13.4% > 4.3%$. It means that there is shortage of liquidity in the market. So, banks should be more careful while advancing loan because loan is the blood of commercial banks for survival. If the bank does not apply sound investment policy, it will be a great trouble in upcoming days to collect loan amount. Banks should invest its fund in various portfolios after deep study of the project to be safe from bankruptcy. Diversification of investment is very much important to commercial bank than other business houses because bank uses the money of other people for the benefit of its own. So, the role of every bank to mobilize deposit fund should be considered frequently.

From the analysis of overall performance of both banks, BOKL's role for deposit mobilization is not considerable as compare to the NIBL. NIBL is far better than that of BOKL. To exist in the tough market competition and to overcome with low performance BOKL should have provide excellent customer services by offering personalized quality products and services, should induce modern technologies of banking that should add value to customer service and should follow strict risk control mechanism. Otherwise its existing will be vanish. So, the performance should not enough with 'Good' it should be 'The Best'.

RECOMMENDATION

According to the various analyses, findings, issues and gaps of the studies, following recommendation are put forward to overcome weakness, inefficient and for the future improvement for deposit mobilization of BOKL & NIBL.

Liquidity positions

The liquidity position of the commercial bank can be affected by external as well as internal factors. These affecting factors can be interest rates, supply as demand positions of loan & advance as well as saving, investment situations, central bank's directives, the lending policies, capacities of management, strategic planning and funds flow situations, etc. as BOKL has maintained cash & bank balance lower than that of NIBL. So, BOKL is recommended to increase cash & bank balance to meet loan demand. And NIBL is recommended to consider their interest rate on fixed deposit & saving deposit they should bring new schemes to attract public/ customer.

Assets managements

From the study it has been revealed that the role of NIBL is not effective than BOKL it has not invested more from total deposits as in investment. They should consider in it and should search new opportunity to invest in bond debenture, government security etc. And BOKL should mobilize its fixed & saving deposit. Because mobilization of fund as loan & advances is one of the main sectors that banks can generate more profit. So, BOKL should successful to mobilize its collected funds to make liquidity flow in market. On the other hand if BOKL wants to exist in market they have to take more risk and should mobilize their deposit. It should be kept on mind that “high risk high gain”.

Profitability

The main objectives of all commercials banks is to earn more profit, they keep their eyes closed from the profit motive, it should more careful in increasing in a real sense to maintain the confidence of shareholders, depositors and its entire customer. The banks should try to increase their profitability by investing in more profitable sectors and by increasing the quality of their extended credits. They should have to investigate thoroughly the wide range of investment opportunities in the market in order to improve their profitability situation. Especially, BOKL should immediately be more conscious.

Growth positions

Loan recovery is most challenging task these days. So, both banks are suggested to implement a sound collection policy including procedures, which ensures rapid identification of delinquent loan, immediate contact with borrower and continual follow up until loan is recovered and legal procedure if necessary. The bank should strengthen and activate their market functions, as they develop 'Innovative approach to bank marketing'. And formulate new strategies of serving customer in a more convenient and satisfactory way. Here, NIBL has higher growth rate than that of BOKL therefore, BOKL should adopt special customer oriented scheme.

Market position

As formation of price is a very complex process, some extremely outstanding sectors such as role in management efficiency, profitability status, future perspective, bank's investment strategy etc, should be improved, as comparison to BOKL & NIBL. BOKL must have followed this scheme immediately to make their market position strong.

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