

# **CHAPTER - I**

## **INTRODUCTION**

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

Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of national outputs, income and employment, solving the problem of inflation and balance of payments. Making the economy free from the burden of foreign debts. Domestic capital formation helps in making a country self-sustainable. According to the classical economists one of the main factor that helps capital formation, has the accumulation of capital. They though 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 factors 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 growth of population by the significant margin. Only with such a rate of capital investment will be living standard begin to improve in a developing country.

In developing countries, the rate of saving is quite low and existing institutions are help successful in mobilizing such saving as most people have income so low that vertically all current income must be spent in maintaining a subsistence level of consumptions (Higgins, 1968:804).

For the development of any country first it is required to have enough capital. It is the backbone for the development of the nation. Nepal lacks the adequate capital

for its development planning. Due to this reason so many development planning are in pending. If there is enough capital available it can invest into the profitable project. When people deposit money in saving and fixed account in a bank, the bank invested those funds in various business companies through lending. These firms in return may invest money in new factory equipment to increase their production. In addition borrowing from the banks, most issue stocks and bonds that they sell to investors to raise capita; needed for business expansion. Government also issues bonds to obtain funds to invest in such project as the construction of dams, road, schools, hospitals and other social & development fields. All such investments by individuals, business & government involves a presto sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living (The World Bank Encyclopedia 1966: 232).

For the economic development of a country it is very important to have an adequate saving which can be invested in productive sector. Due to low income there is fewer saving. People spend all the money in consumption of daily needs. However, some rich people who save money, they spend their money in purchasing precise metal and goods. Thus people have no idea about the investment in productive area due to the lack of education. Commercial Banks are the main source, which motivate people to save theirs earnings. Banks collect the saving of people in the form of deposit and invest it in the productive area. They give the loan to the needy people, merchants and other institutions etc. Commercial banks mobilize the deposit in different sectors, which is collected from the people and other sectors.

### **1.1.1 Banking History in Nepal**

The actual fact of the origin of the modern banking is up to date of mystery. So, when, how and where the modern banking actually comes in to existence couldn't be pointed out. But from the different historical facts revealed that some sort time banking activities have been carried out since the time of immemorial. At that time, merchants, moneylenders, Gold Smiths etc, did the banking transactions. Later the transaction starts increasing and they being the activities if money exchange, secure the valuable goods, deposits money, Lending money and so on. And for all the activities, the written receipt is began to use; and the modern form of banking formed thereafter.

The word bank was derived from the Italian word “Banco” which means accumulation of money or stock. Bank as an institution was originated from Italy. The Bank of Venice, which was established in 1157 AD, was the first bank in the history of banking. The Bank of Barcelona, Spain, which was established in 1401 AD, was the second, bank f the world. The first Central bank though was the bank of England, which was established in 1844 AD.

Bank can be briefly defined as the financial intermediary between the deposits and the credit seekers. The inter-mediation takes place when banks accept deposits from general public, corporate bodies and private organizations and deploys those deposits for profitable purposes in the form of loans and advances.

Cambridge International Dictionary of English has defined Bank as “ An organization where people and businesses can invest or borrow money, change it to foreign money, etc., or a building where these services are offered.” Though the definition is vague, bank can be described as a financial institution offering several financial services.

Bank can be described as the custodian of saving of general people and establishment as well. It would be quite impossible for the entrepreneurs to acquire the saving of general public for investment without banks. Therefore, the bank can be best described as the financial institution which accepts saving of public by providing them with certain rate interest and loans it to needy investors charging certain rate of interest and earns some profit in the process of inter – mediation. Modern banking being a lot more than just deposit and loans, cater a range of services viz. remittance of money, letter of credit, bank guarantee, issue of money, controlling monetary activities of the entire nation.

Though modern banking practices are of recent origin in our country, historical evidences show the presence of some crude banking practices in the earlier period of time. The contributors to the development of a Nepalese banking system according to the respective time are considered to be King Guna Kama Dev, a Sudra Merchant Shankhadhar, the business group ‘Tankadharies’ of Kantipur and also ‘Tejarath’, a Government financial institution established by Rana Prime Minister Ranaddip Singh. Moreover, the setting up of ‘Tejarath Adda’, considered as ‘The father of modern banking institutions in Nepal’ has been regarded as the first remarkable step in organized banking.

‘Tejarath’, which was established in the government sector provided its services only to the civil servants and excluded the services to general public. Private moneylenders, following certain malpractice, used to charge unreasonable rates of interest, which caused inconvenience and difficulties to the people of the country. The grave need of a commercial bank was felt to eliminate prevailing hindrances caused by private moneylenders to the general public. As a result, the ‘Tejarath’ was replaced by a modern commercial bank.

The first bank to be initiated in Nepal was the commercial bank. The pioneer in the modern banking history of Nepal Banks Limited which was established in the year 1994 BS. Nepal's central bank – Nepal Rastra Bank – was established in 2013 BS to perform the functions of central bank in Nepal. Subsequently, another state owned commercial bank, Rastriya Banijya Bank was established in 2022 B.S. and Agriculture Development Bank was established in 2024.

The Government of Nepal approved joint ventures banks to operate on the country only in the year 2041 BS. Then came the hoard of joint venture public Limited commercial banks. The first joint venture bank is Nepal Arab Bank Ltd, which is called Nabil bank at present, was established in 2041 BS. Nepal Indosuez Bank Ltd. And Nepal Grindlays Bank Ltd. was established in the year 2042 BS and 2043 BS respectively. In the year 2049 BS, Himalayan Bank Limited was established with the joint venture of Habib Bank Limited of Pakistan. Nepal SBI Bank followed Himalayan Bank limited in the year 2051 BS. The year 2051 BS saw three new banks in the banking history. Nepal Bangladesh Bank Ltd., Everest Bank Ltd. And Bank of Kathmandu Ltd was established in 2051 BS. Nepal Bank of Ceylon Ltd., Lumbini Bank Limited and Nepal Industrial and Commercial Bank Ltd were established in 2052 BS, 2053 BS and 2054 BS respectively. Shiddhartha Bank, Laxmi Bank and just now Global Bank were established.

### **1.1.2 An overview of Nabil Bank Limited**

Nabil bank was incorporated in 1984 as a first foreign joint venture bank by the joint investment of Dubai Bank and Nepalese promoters. Nepalese investors include government organization and general public owing 20% and 30% of the total capital respectively and other half portion of capital is borne by Dubai Bank Ltd. Later on the share owned by Dubai Bank Ltd. were transferred to Emirates Bank International Ltd. After this National Bank of Bangladesh required 50% of

shares and has become the promoter. Nepal Arab Bank Ltd. (Nabil) was registered in May 1984 in Department of Commerce, His Majesty's Government of Nepal. It's Nepali investors are Industrial Development Corporation (NIDC), Stock Exchange which subscribe the 20% shares and remaining 30% shares are subscribed to general public of Nepalese shareholders. Nabil commenced its banking operation on July 12<sup>th</sup> 1984. Now it has the highest level of deposits and advances among all joint venture banks of Nepal. Nabil is issuing master cards and visa.

The Head Office of Nabil is situated at Kamaladi, Kathmandu. It has altogether 28 branches in present. They are spread over in nine districts of Nepal, including urban and rural areas. The branches located at Kathmandu, Birgunj, Sugauli, Biratnagar, Lalitpur, Sunsari, Butwal, Dharan, Bhalwadi, Bhairahawa, Rupendehi, Pokhara, Nepalgunj Birtamod, Damak, Hetauda, Narayandhad, Baglung, Ghorahi, Tulsipur, Dhangadi and Mahendranagar. Nabil is the first bank to secure Nepal Rastra Bank approval for opening of branch in Calcutta. This matter is now under consideration by Reserve Bank of India.( Gorkhapatra and Naya Patrika Daily)

### **1.1.3 Function of Nabil Bank**

The various functions of Nabil are given below

1. Accept various types of deposits
2. Borrowing raising and taking up of money
3. Lending loans as well as services
4. Provide guarantee of services
5. Provide facility of discounting bills and promissory notes
6. Provide Tele banking services
7. Provide safe deposit vault
8. Provide transit facility of foreign currency

9. Provide remittance service
10. Provide service of letter of credit (L/C), travelers' cheque
11. Provide facilities on bill clearing, purchase and collection services
12. Provide locker facilities and other commercial services

#### **1.1.4 Deposit of Nabil Bank**

Crowther in his book "An outline of Money" has defined Commercial Banks as "The institutions, which receive the saving from the people in different accounts by paying certain rate of interest. Therefore, Commercial bank draws surplus money from the people who don't use it at the time and lend it to those who are in the position to use it for the productive purpose." The primary function of any commercial bank in Nepal is to accept deposits in order to provide loans and advances.

The deposits are the main sources of raising capital, and these deposits are received in different sorts and accounts. Only that deposits which are received in the form of cash or in that of the rights to receive cash will add to the working capital of the bank. But the deposits arising out of the discounting of bills or granting loans won't add to the working capital. Hence deposits may be created either by customers or by the bank itself. The customers created by bank when it credit customers' account in the form of loans. The saying of JM children of loans" comes true in Modern banking System.

The use of funds depends on the lending policy of the bank as it provides loan from the deposits it receives. The bank is not lending their own money but furnish advances from deposits that are received from the customers. The bank collects the deposits from customers and gives certain percentage of amount as interest.

The bank provides security to that money from every dangerous mishappening such as loose, theft, fire, flood, etc.

### **1.1.5 Deposit Collection**

For a commercial banks deposit is the most important source of the liquidity. For, banks financial strength it is treated as a barometer. In the word of Eugene, “A banks deposits are the amount that it owes to its customers.” Deposit is the lifeblood of the commercial bank. Though the constitution the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposit. The volume of funds that management will use for creating income through loans and investment is determined largely by the bank’s policy governing deposits. 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 deposit creating powers of commercial banks forces to raise the assets along with the liability side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank wal thought to be determined by the depositors and not bu bank management. There are regular changes on this view in the modern banking industry. Thus banks have evolved 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 (Baidhya, 1999:68).

Bank deposits arise in two ways. The first when the banker receives cash and credits a customer's account, it is known as a primary or a simple deposit. Such primary deposits are made from the initiative of depositors. The second, when banks advance loans, discount bills, provide overdraft facilities; make investments through bonds and securities. This is called derived deposits of derivative deposits.



They add to the supply of money. Banks actively create such deposits (The Encyclopedia Britannica, 1981:700).

For accounting and analyzing purpose, deposits are categorized mainly in three heading. They are

1. Fixed Deposit
2. Current Deposit
3. Saving Deposit

#### **1.1.5.1 Saving Deposit**

Saving Deposit is the most popular among all types of deposits. Saving Deposit enables general public to deposit otherwise surplus money, thereby earning certain rate of interest. The Saving Deposit can be withdrawn at anytime with the limitation of amount that can be withdrawn at a time, but at some banks there are no such limitations. Saving Deposit Account can be opened individually or can be operated by more than one. This account is suitable and appropriate for the people of middle class, farmers and the labors who have low income, officials and small businessmen. This type of account can be opened either in local currency or convertible foreign currency as approved by Nepal Rastra Bank. Mainly many of the banks calculate and credit the interest to the account on minimum monthly balances biannually. The bank allows withdrawing the amount limited to Rs. 500,000.00 within a week but the depositor can withdraw the excess or whole deposit with the prior formal notice of 7-30 days. The Bank mostly mobilizes these deposits by investing on Treasury Bills for the period of about three months. Saving deposit bears the features of both of the current and fixed period deposits. Generally most accounts are opened saving deposit in a bank. The Saving Account is given a preference on the payment of interest to other deposits.

### **1.1.5.2 Current Deposit**

Current Deposit Account is mainly for Business Houses, but individual can also operate the account. It is also known as 'Demand Deposit' because of its nature, enabling one to deposit or withdraw at any time the amount, without limitation. Though there is no withdrawing limitation in this account. Its transaction is continual and such deposit can't be invested in the productive sector, so such type of amount remains as stock in the bank. Though the bank can't gain profit by investing it in new sector after taking from the customer, this facility is given to the customer. Therefore the banks do not provide any interest on it. 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 account. The firms with the large volume of daily transaction operate this type of account.

The banks can't impose any condition and restrictions in demand deposit. An institution or an individual, who usually needs money daily, precedes their acts and transaction through such deposit. The current account is very important for the customers of bank. Current deposit on the one hand, saves time and labors and the bank keeps the accurate account of the account holders, So it is a great facility for the customers. The banks provide facility of overdraft, letter of credit, remittance etc. with certain rate of interest for the current account but there must be a minimum balance maintained with the bank. The deposit of this kind is generally mobilized in short-term loans.

### **1.1.5.3 Fixed Deposit**

Fixed Deposits are the most rigid in terms of withdrawal. The deposit remains with the bank for the fixed period of time and can't be withdrawn unless the time matures. The primary feature being time in this type of deposit, the deposit is also known as 'Time Deposit'. The rate of interest in Fixed Deposit is comparatively

higher and differs according to the duration of the deposit. Bank can not change the interest rate of Fixed Deposit Account before the expire of deposit period but at the renewal, new interest rate as well as other terms and conditions could be altered.

People, who want higher consideration from their surplus money, do not want to gamble in shares or debentures and are scared of business uncertainties; generally open Fixed Deposit Account. There should be Current Account or Saving Account existing previously in the bank to open the Fixed Deposit Account. Interest will be calculated and credited to the depositor's Current or Saving Account automatically on timely basis. Principal amount of deposit will be automatically credited to the depositor's current or Saving Account on final maturity. The Fixed Deposit Account holder is provided only with a Fixed Deposit Receipt and does not get Passbook or Chequebook. Fixed Deposit is the principal source of working capital for loans and advances and investments. The amount can't withdraw before the fixed time.

However, it is apparent that commercial banks basically depend upon the all types of deposits, considered as the main source of working capital for mobilizing in its banking operational functions. Nabil, from its initiation is playing a vital role in the economic development of the nation by collecting otherwise scattered resources in the form of deposits and utilizing them for the productive uses.

## **1.2 Objectives of the Study**

The purpose of the study will be to examine the relationship between the amount of total deposit and amount of total credit granted by Nabil.

1. To examine how far the interest rates of deposits have positive relationship with the deposit collection of Nabil Bank.

2. To see the impact of interest rate of loan on the credit extended by Nabil Bank.
3. To study the increasing and decreasing trend of deposit mobilization of Nabil Bank.
4. To compare the performance of deposit and investment of Nabil.

### **1.3 Limitation of the Study**

1. Commercial bank cannot fix the interest rate at its direction. It is bound by the limitation of rules and regulation of Nepal Rastra Bank.
2. Banks cannot give 100% loan of fixed deposit. Such % of loan is prescribed by NRB. They should keep some deposits with themselves for maintaining of banks' liquidity
3. Instead of development of joint venture bank, a large chunk of rural people is still deprived of basic banking service. Taking this thing in consideration, NRB has made a mandatory that three rural branches be opened against one urban branch.

### Lists of Licensed Commercial Banks

S.N.	Commercial Banks	Established Date	Head Office
1.	Nepal Bank Ltd.	1937/11/15	Kathmandu
2.	Rastriya Baniija Bank	1966/01/23	Kathmandu
3.	Nabil Bank	1984/07/16	Kathmandu
4.	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
5.	Standard Chartered Bank	1987/01/30	Kathmandu
6.	Himalayan Bank Ltd.	1993/01/18	Kathmandu
7.	Nepal Bangladesh Bank	1993/06/05	Kathmandu
8.	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9.	Everest Bank Ltd.	1994/10/18	Kathmandu
10.	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
11.	Nepal Credit and Commercial Bank	1996/10/14	Siddhartha Nagar
12.	Lumbini Bank Ltd.	1998/07/17	Naryanghat
13.	Nepal Industrial and Commercial Bank Ltd.	1998/07/2	Biratnagar
14.	Macchapuchhre Bank Ltd.	2000/10/03	Kathmandu
15.	Kumari Bank Ltd	2001/04/03	Pokhara
16.	Laxmi Bank Ltd.	2002/04/03	Kathmandu
17.	Siddhartha Bank Ltd	2002/12/24	Kathmandu
18.	Agricultural Development Bank Ltd.	1968/01/02	Kathmandu
19.	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20.	Citizen Bank Ltd.	2007/06/21	Kathmandu
21.	Prime Bank Ltd.	2007/09/24	Kathmandu
22.	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23.	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24.	NMB Bank Ltd.	2008/05/02	Kathmandu
25.	Development Credit Bank Ltd.	2008/05/25	Kathmandu

*Source: Gorkhapatra National Daily Feb, 2009*

#### **1.4 Statement of the Problem**

The establishment of commercial bank (including joint venture banks), the enforcement of priority sector and productive sectors lending policy of NRB to financial institutions don't seem to have an appropriate impact.

Nepal being listed among least developed countries, In this situation the commercial banks have plays a catalytic role in the economic growth of country. It's investment range from small-scale cottage industries to large industries in making investment in loans and government securities. One may always wonder which investment is better. It can be hypothesis that bank portfolio variables like loan, investment, cash receive, deposit and borrowing affects the national income. And also how the government policy affects these variables such as the effect of an interest rate on the bank portfolio variable is a great concern. Therefore, when monitoring money and credit condition, the central bank has to keep an eye on the bank portfolio behaviors.

Nepalese commercial banks have not formulated their deposits/ investment policy in an organized manner. They mainly really upon the instructions and guidelines of NRB. They don't have clear view toward deposit and investment policies. Further more the implementation of policy is not in an effective way. Thus the present study will make a modest attempt to analyze in deposit and investment policy of Nabil. The problems specially related to deposit function of the joint venture bank like Nabil and other commercial banks of Nepal have been presented bellow.

1. Commercial banks are considered efficient but how far they are efficient?
2. State the relationship of investment loan and advances with total deposits and total profit?
3. Whether these commercial banks are able to meet obligations?
4. Is Nabil's mobilization of deposit and investment policy effective and efficient?
5. Is Nabil Bank maintaining sufficient liquidity position?

## **1.5 Scheme of the Study**

In this study the following chapters gives the idea about the research.

## **CHAPTER – I INTRODUCTION**

It includes the introduction and background of the study. It contains the introduction, background, definition, meaning, evolution, and function of the bank. In this chapter objective of the study, significance of the study, focus of the study and limitation of the study etc are depicts.

## **CHAPTER – II LITERATURE REVIEW**

It includes the literature review of the relevant studies. it includes the conceptual review and review of related studies and unpublished thesis studies and related articles

## **CHAPTER – III RESEARCH METHODOLOGY**

In this chapter includes how the study is done or research methodologies used are described. For this purpose various financial tools and statistical tools are defined which will be used for the analysis of the presented data.

## **CHAPTER – IV DATA PRESENTATION AND ANALYSIS**

The main part of the study is chapter 4. It contains the analysis of the data. Analysis is done as per described in chapter 3. It also contains the major finding of the study. The major findings are divided in to two segments, first is analysis of secondary data includes the ratio analysis, correlation coefficient trend analysis of the data. Which shows the financial condition of the studied bank and its impact in Nepalese commercial situation. And second is view of the primary data and view of the bank staff and clients.

## **CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS**

It contains the summary, conclusion and recommendation of the study. This gives the whole summary and its impacts etc.



## **CHAPTER - II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

This chapter highlights and deals with the literature relevant to this study. The study is based on past knowledge. The previous studies can not be ignored because they provide the foundation to the present study. In other word, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. It includes review of supportive text, review of legislation related to commercial banks and review of Thesis.

Literature Review is basically a “Stock Taking” of available literature in one’s field of research. The literature survey thus provides us with the knowledge of the status of their field of research. Therefore, this chapter has its own important in the study (Wolf and Pant, 2000:30).

- Review of Supportive Text
- Review of legislation related to Commercial Banks
- Review of Thesis

Review of Literature means the study of relevant topics in the related field of research or reviewing related research studies and findings such that all past studies, theirs conclusion and deficiencies may be known and further research can be done. In the course of research review of the existing literature would help to checks the changes of duplication in the present study. Thus one can find that what studies have been concluded and what remains to go with.

## **2.2 Concept of Commercial Bank**

Commercial institutions are those financial institutions, which deals in accepting the deposits of people and institutions and giving loan against securities. They provide working capital needs of trade, industry and even to agricultural sectors. Moreover commercial banks also provide technical and administrative assistance to trade, industries and business enterprise. “Commercial banks are a corporation which accepts demand deposits, subject to check and make short term loans to business enterprises, regardless of the scope of its other services.”

Commercial banks are the heart of financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individual, business firms and government establishment units.

Therefore commercial banks are those banks that pool together the saving of community and arrange for their productive use. They supply the financial needs of modern business by various means. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short terms needs of trade and industry. They cannot finance in fixed assets. A part from financing, they also lender services like collection of bills and cheque, safe keeping of valuables, financial advising etc to their customers (Vaidya, 2001: 38).

The American institute of Banking has laid down the four major function of Commercial bank such as receiving and handing of deposits, handing payments of its clients making loans and investments and creating money by extension of credit (Principle of Bank Operation, USA: 609).

Principally, commercial banks accept deposits and provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy (Albrol and Gupta, 1971:65).

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

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

However, central bank is the main bank of the any nation that directs and controls all the banks whose existence is in the country. In Nepal, Nepal Rastra Bank is the central bank of the country. All the commercial banks perform their functions under rules, regulations and the directives provided by Nepal Rastra Bank.

Under the free enterprise system like U.S.A. the interest of nation as well as those of individuals and stockholders are supposed to be best served by vigorously seeking profit. But the profit cannot be the sole objective of the any enterprise. It should not be evaluated just on the ground of profit earned. Neither the bank nor the community will be best serve if the banker unreasonably scarifies the safety of theirs fund or the liquidity of their bank in an effort to increase income (Vaidya, 1947: 24 and Nepal Commercial Bank Act).

From the above many definition, commercial banks including joint venture banks, they are mainly receiving the money from depositor and invest in different sectors.

So that banks are the main source of development of a nation. In the context of Nepal, it is a poor and least developed county having low per capita income and GDP. As a result, many economic problems such as inflation, devaluation of money trade, trade deficit, budget deficit etc arises. For the sake of removing these problems, many joint ventures are being incorporated in our country by sharing Nepal's and foreign investment towards making more profit by using the funds in profitable sectors. Therefore bank should be invested in different sector which helps in the growth of national economy.

### **2.3 Function of Commercial Banks**

Commercial banks are the most important types of financial institution for the nations in terms of aggregate assets. Traditional functions of commercial banks are only concern with accepting deposits and providing loan. Although these banks are truly inspired with the objectives gaining profits. Here commercial banks are also established to accelerate common people's economic welfare and facility. 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 provably expand. Recent innovation in Banking include the introduction of credit cards accounting services of business firms, factoring leasing participating in the Euro-dollar market and lock- box banking. Along with other functions, the main functions of commercial banks are to accept deposits from the people and to lend it to those who are in need of financial aid. The main functions of commercial banks are as follows.

1. Accept various types of deposits
2. Borrowing raising and taking up of money
3. Lending loans as well as services
4. Provide guarantee of services

5. Provide facility of discounting bills and promissory notes
6. Provide Tele banking services
7. Provide safe deposit vault
8. Provide transit facility of foreign currency
9. Provide remittance service
10. Provide service of letter of credit (L/C), travelers' cheque
11. Provide facilities on bill clearing, purchase and collection services
12. Provide locker facilities and other commercial services

#### **2.4 Role of Commercial Banks**

The role of commercial bank in the economy is obviously a prime prerequisite for the formulation of the bank policy as the role shape, the nature and character of the bank. The deposit minded banker may under emphasize safety. Often commercial bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks customer who seldom borrow from the bank an impartment function may be the acceptance and safe keeping of deposits. But those customers who often take loans from the bank, the credit creation function may be the most important. The commercial bank is different from the other banks especially from central bank. In appearance the main distinction between central bank and a commercial bank is that now- a- days the central bank does not do much banking, but the more fundamental difference is one of aim. The main objective of the commercial bank is to make profit where as the central bank thinks of the effects of its operations on the working of the economic system. The commercial bank has the shareholders and is expected to do the best it can for them but the government by contrast usually owns the central bank. The commercial bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly

impersonal and are confined to what is necessary for influencing the country's financial business in the directions citrated by economic policy (Sayers, 1972:17-18).

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

Presently, the contribution of commercial banks and joint venture banks in agriculture sectors has been expanding. It provides the credit facilities for the development of agriculture on cases where Agricultural Development Banks and Cooperative Societies don't enter into the field. The agriculture sector needs more and more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require obviously more investment. Thus role of commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal. The economy of our country is dominated by agricultural sector. This could be exemplified from the

figures that about 80 percent of the total population is engaged on agriculture and about 40 percent of the national income comes from the agriculture. Similarly 51 percent of the export trade is in agricultural product. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture. This is very clear that in such a country the financial help to the agriculture sector is most urgent and indispensable for strengthening the base of national economic structure.

The role of commercial bank is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more and more upon the supply of capital by the banks. It wouldn't be exaggeration to state that commercial banks are mainly responsible for whatever the industrial development has been achieved by Nepal. However many other financial institutions like ADB/N, NIDC have already been established for the development of agriculture and industrial sector of the country. The commercial banks are also continuously participating in these activities. Being a mountainous country, many places are very remote and sometimes it requires many weeks to approach some of the places. Due to lack of transport and communication facilities and other geographical causes, the country has been still facing the problem of imbalances economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial banks have their appropriate role to play here by expanding their branches in the different Hilly and Tarai regions available loan to the local people. In industrial sector, commercial banks are providing the necessary financial help for the industrial establishment in the country. They provide short and medium term loan to industries to purchase machineries, tools, raw materials etc. and to introduce new and developed techniques of production.

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

## **2.5 Resources of Nepalese Commercial Banks**

Resource is the main important factor for everything. Therefore it plays the main role in the development of organizations, banks or other financial institutions. Mainly commercial banks have three sources for their advancing. They are as follows.

### **1 Capital**

So far as the capital funds its concerned, it is only a nominal source. Therefore it can not be used for investment purposes. This capital fund consists of two elements: Paid up capital and General reserve.

### **2 Deposit**

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



### **3 Internal and External Borrowing**

These are very important for a developing country like Nepal being an underdeveloped country. Commercial banks alone can not fulfill the necessities of the society. Therefore commercial banks are allowed to borrow from both two sources internal and external. 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 that is from NRB.

#### **2.6 Deposit Mobilization**

In developing countries there is always shortage of the capital for the developmental activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time; people also can not undertake large business because the per capita income of the people is very low while their propensity to consume is very high. Due to the low income their saving is very low and capital formation is also very low. So their saving is not sufficient for carrying on 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, 1965:11). But how capital can be accumulation 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. From external Foreign Aid, Loan and Grants are main. While in the 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 in the country. Trade, industry, agriculture and commerce should be developed for the economic development.

Capital formation is possible through collecting scattered unproductive and small savings 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 (RBB, Upahar, 2055, No. 4:14). Economic development so defined is necessary and so sufficient to generate rates up savings and investment. The generation of high rates of saving and thereby investment is possible only through the commercial banks. Commercial banks occupies greater role in economic development by generating the savings towards the desired sectors from one place to another, communicating with its branches and agencies in different parts of the country and the world and advising to the commercial people.

When we discuss about deposit mobilization, we are concerned with increasing the income of the low-income group of people and to make them able to save more and to invest again the collected amount in the development activities. Collecting scattered small amount of capital through different Medias and investing the deposited fund in productive sector with a view to increase the income of the depositors is meant deposit mobilization. In other words, investing the collecting fund in the productive sectors and increasing the income of the depositors, it also supports to increase the saving through the investment of increased extra amount (NRB, Bankers Prakashan, 1984: 10- 12).

Banking transaction refers to the acceptance of deposits from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period according to banking rules and regulations. This definition clearly states that Deposit Mobilization is the starting point of banking

transactions. Banking activities can be increased as much as we can mobilize the accumulated deposit effectively (NRB, Nepal Bank Patrika, 2037:4-7).

Increasing the income of the low-income group of people and making them able to save more deposit mobilization helps to the collected deposit in desired sectors. Deposit depends among others, on the level of country's per capita income and its growth rate, population growth rate, interest rate on deposits or on the bank accounts, banking and financial facilities and net factor income etc. The national income is the measure of the nation from the economic activities. Saving is the excess of income over consumption. Investment is the expander made for the formulation of the fixed capital. Mobilization of saving implies transfer of resources from surplus spending units to deficit units. In these connections, financial intermediaries play an important role in mobilization of voluntary saving. The amount of saving of a typical household in Nepal is small because the people have limited opportunities for investment. They prefer to spend savings on commodities rather than on financial assets. These restricts the process of financial intermediation, which might otherwise bring such as reduction of investment risk and increase in liquidity when capital is highly mobile internally, saving from abroad can also finance the investment need at home. When capital is not mobile internally, saving from abroad will limit investment at home.

## **2.7 Need for Deposit Mobilization**

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report, "Deposit Mobilization why and how" (NRB Bankers Prakashan, 1984 No. 24) Group "A" states the following points as the need for deposit mobilization.

- The need of deposit mobilization is felt to control unnecessary expenditure. if there is no saving, the extra money that the people have, can flow forwards

buying unnecessary and luxury goods. So , the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.

- 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.
- 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.
- 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.
- 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 the bank deposit.

Developed country does not feel the need of deposit mobilization for capital formation due to developed capital markets in every sectors but in an under developed country and developing country deposit mobilization plays a great role for the economic development . So far the developments of these sectors concerned, there is needs of more capital. Again instead of the development of a particular sector, the development of every sector should go side by side. 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 problems of economic development of an under developed country like Nepal. So the development process of these sectors on one side and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of an under developed country. We can take this in our country's present context (NRB Bankers Prakashan, 1984: 12).

## **2.8 Advantage of Deposit Mobilization**

In that report, Group B states following points as the advantages of Deposit Mobilization.

### **1. To Support Fiscal and Monetary Policy**

Fiscal policy of the government and monetary policy of the central bank for economic development of a country can be supported by Deposit Mobilization. Deposit Mobilization helps to canalize idle money in productive sectors. Again, it helps in money supply, which saves the country from deflation and helps central banks objective of monetary policy.

### **2. Capital Formation**

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

### **3. Circulation of Idle Money**

Deposit Mobilization helps to circulate idle money. The meaning of deposit mobilization is to convert idle saving into active saving. Deposit Mobilization helps the depositor's habit of saving on one side and helps to circulate the idle saving in productive sector and other. This helps to create incentives to the

depositors. Again, investments in productive sector helps directly in country's economic development and also increases in investor income.

#### **4. Co-ordination between Different Sectors**

Deposit Mobilization helps to collect capital from surplus and 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 and the needy sectors by receiving loans and advances benefits the surplus and hoarding sectors, thus deposit mobilization helps to keep good co-ordination between different sectors.

#### **5. Development of Banking Habit**

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

#### **6. To Promote 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 employment and income of the local people.

#### **7. To Support 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 fulfil to some extent the need of money to the government.

### **8. To check up Miss Utilization Of Money**

Mostly our customs 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.

### **9. Others**

Deposit Mobilization supports small savers by earning interests, helps to the development of rural economy , protects villagers from being exploitation of indigenous bankers, increases investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc. (pp 12-14)

Economic progress is the function among other things of the rate of new capital formation. Capital is needed for the economic development for a country. External sources are not dependable sources of capital. So, mobilizations of internal sources have a great significance. This is the only way of receiving capital continuously for a long time. Capital formation is the low process, which involves putting to production use that part of the current incomes, which is not use for current consumption. The process of capital formation may be divided into three stages. Firstly the creation of savings by individuals, business houses or public authorities, secondly mobilization and canalization of saving, i.e. conversion of savings into funds. Which are available for investment in Agriculture, Industry and Trade, finally reacquisition of capital goods out of such funds. The essence of the process of the diversion of a part of society's current available resources for the purpose of increasing the stock of capital goods so as to make possible an

expansion of consumable output in the future. Therefore, the drive for capital formation requires actions to increase, mobilize and appropriately channel the domestic resources available for economic development. It is complex problem with wide dimensions, but the present survey is contained to banking sector alone, which is perhaps the most important agency for this purpose (Ghosal and Sharma, 1965:63).

Actually, commercial banks perform a number of interrelated functions, all of which are vital and form a part of a balanced view of banking policy. Commercial banks bring into the most important ingredient if the money supplies demand deposits through the creation of credit in the form of loans and investments. Banks are the custodians of the community's money as well as the suppliers of its liquidity. For this, the depository function may be the most important. Commercial banks participate with every institutions in the progress of accumulating and inventing real savings and perform a number of other incidental functions. It is further states that there are various institutions mobilize internal resources. These are commercial banks, insurances companies, post office etc. Among them commercial banks are the effective and dependable sources of 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's economic development, also helps to the depositor himself. The interest earned in the amount helps to raise the standard of living on one side and if the other, the depositor had right to draw the deposited amount at the time need (NRB Bankers Prakashan, 1994: 17).

Banking has acquired a new significance and the banking activities a new dimension. Social responsibilities have been enjoyed by the banks by bringing about economic development in the country in a big way. They are assigned



priority sectors of the economy for special attention in extending credit. All the activities of the banks now are geared to accelerate the growth of economy at all levels to iron out the regional imbalances. It is also hoped now that the banks can do a lot in solving the unemployment problem in the country, which has assumed large dimension.

Thus commercial banks provide opportunities for gainful employment to citizen who has limited economic capacity. Therefore, on one hand it solves the problem of unemployment in the country and on the other it utilizes the fund in the best possible manner for the economic development.

## **2.9 Review of Related Studies**

### **2.9.1 Review of Previous Studies**

Surendra Pradhan (2000) entitled “Financial analysis is to analyze the achieved statements to see if the result meet the objectives of the firm, to identify the problems, if any, in the past or present and/ or likely to be in the future and to provide recommendation to solve the problems.

Weston Besley and Brigham (1996) have started, “Financial statement analysis involves a comparison of a firm’s performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking the analysis is used to determine the firm’s financial position in order to identify its current strengths and weaknesses and to suggest actions that might enable to the firm to take advantage of strength and current weaknesses.

Various studies have been conducted on the financial performance of commercial banks of Nepal. Many of them are concentrated to Nepalese commercial banks and only few are focused on joint venture bank especially comparative studies. In

this chapter different previous studies have been reviewed so that chances of duplication will be avoided from the present study and some newness can be created in this field of study.

The contribution of Prof. Dr. Govinda Bdr. Thapa, “In this, field is equally important; the major findings of Dr. Thapa are briefly presented below.

- Commercial banks including foreign investment banks are doing pretty well in mobilizing deposits.
- They are increasing their loan and advances. However the bank still seems to lack adequate fund of grant loan, especially newly emerging banks.
- The joint venture banks have been functioning well and making huge profits a year after year and distributing large amount in the form of bonus and dividends to its employees and shareholders respectively.
- The main reasons behind success in concentration of those banks to modern off balance sheet operations like foreign exchange (FOREX) dealing along with traditional operations and efficient personnel management.

### **2.9.2 Review of Articles**

Many researchers have analyzed their fund mobilizing view and finding in their research paper in this subject through deposits and investments policy of commercial banks.

Twenty- five percent decreases in the liquidity position of commercial banks. The liquidity position of commercial bank has decrease by about twenty-five percent. According to the ex. governor of NRB Dr. Tilak Rawal, last year the liquidity of the commercial bank was Rs. 48000.00 million, but now it is less than Rs. 35000.00 million. In this condition, capital drains seem responsible and political

condition also responsible. The president of Nepal bankers association Mr. Narendra Bhattarai has expected that the liquidity position of commercial bank has decreased by twenty- five percent in comparison to the last year. Mr. Bhattarai requested to NRB to implement monetary policy in the current station of controlling inflation and decreasing liquidity. Dr.Tilak Rawal said that NRB has implemented flexible monitory policy and although continuing the policy, because of the BPO is negative, it should be careful and should be implement the monetary policy by balancing. But economist Dr. Badri Prasad Pokhrel has suggested that if demand is high, it should increase the liquidity (Kantipur Daily, 11 Jesth 2059).

Joshi (1984) the chief officer of NRB in the topic “*Rural Saving Mobilization in Nepal*” states that: The ability to save and the incentive to save are the two major determenants of savings. The incentives to save as reflected in Nepal Rastra Band real interest rate policy can be stretched for with profit. It is highly probable that further increase in the griwth rate of financial savings can materialize if a flexible policy is pursued to keep real interest rate at a positive level. But eventually the deposit expansion is to be bounded constrained by the low saving ability of the people as indicated by stagnant per capita GDP over the past decade. For a sustained growth of deposits or of overall saving rate what is needed more is to increase the income level of the people in order therefore to make saving mobilization strategy effective and successful policy measures should be taken considering two aspects of the strategy. In short run, policy should focus on the appropriate steps to tap savings within the existing banking framework while the long run measures should be adopted with a view to raising the investment rate and making it more productive.

The researcher suggests the following points to increase deposits and to extend volume of credit.

1. To extend the household saving account.

2. Win the confidence of local people.
3. Effective publicity and attractive prizes.
4. Revisions in interest rate policy.
5. Branch expansion policy
6. Credit planning.
7. To invest in priority sector (Joshi, 1984: 65-66).

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 generating resources in the form of deposit of the private sector so for providing credit to the investor's in different aspects of the economy.

Sharma (2000) on the entitled "*Banking the Future on Competition*" found that all the commercial banks are establishing and operation 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 to 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.

Shekhar Bahadur Pradhan has presented a short glimpse on investment in different sector, its problem and prospects through his article, "*Deposit Mobilization, its Problem and Prospects*". On this article, he has expressed that, "Deposit is the life of any financial institution, commercial bank, finance company, co-operative or

non government organization”. He has added, in consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a strong feeling that a serious review most is made of problem and prospects of deposit sector. Barring few joint- ventures banks other organizations rely heavily on the business deposit receiving and credit disbursement.

In the light of this Pradhan has pointed out following problems of deposits mobilization in Nepalese perspective.

- Due to lack of education, most of the Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form cash, ornament of kind. Their relocation to deal with institutions system are governed by the lower level of understanding about financial organization, process requirement, office hour withdraws system, availability of depositing facilities and so on.
- Due to the office hour of banking system people prefers for holding the cash in the personal possession.
- Unavailability of the institutional services in the rural areas.
- No more mobilization and improvement of the employment of deposits in the loan sector.

Pradhan has not only pointed out the problems but also suggested for the prosperity of deposit mobilization. They are given:

- 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. The scheme of mobilizing the deposit in the form free personal accident insurance, deposit insurance may be fruitful. Not only waiting far potential customer it is better to reach to the potential depositors. (pp. 9-10)

Morris (1980) in his 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 function.

The writer adds that poor management in financial institution has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk 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 (Morris, 1980: 81)

Willamson (1998) in the topics, “*Personal Saving in Developing Nations*” found that savings and investment decisions are highly interdependent in Asian sector interest rate mostly household people to save money for short period. Its influence is less in the long run saving decision (p 25).

Chopra (1989) the article entitled, “*Role of Foreign Banks in Nepal*” of concluded that joint venture banks are playing an increasing, dynamics and vital role in the economic development of the country. This will undoubtedly increase with time.

Dr. Govinda Bahadur Thapa (1994), has presented his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loan advance of these banks are also increasing but compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are operating with a nominal profit, the later turning to wards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expenses are declining. Because of these two local banks, in traditional off balance sheet operations, these banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery overdue and defaulting loans have been limited resulting tin high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off balance sheet operations and efficient personnel management has added to maximization of their profits.

At the end of this article, he concludes that by it's varying nature of the public sector. The domestic banks couldn't compete with the private sector banks, so

only remedy to the problem of these banks. As the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Dr. Sunity Shrestha (1996), in her article entitled, "*Lending Operation of Commercial Banks of Nepal and Its Impact on GDP*" has presented an analysis of contribution of commercial banks lending to Gross Domestic Product (GDP) of Nepal. In her setting hypothesis, there has been positive impact of lending of commercial banks of the GDP as the dependent variable and various sectors of lending i. e. agriculture, industrial, commercial, service and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution. Except service sector lending the multiple analysis has shown that the variables has positive impact on GDP. In conclusion, she has accepted the hypothesis i.e. there has been positive impact by the lending of commercial banks in various sector of economy.

Ramesh Lal Shrestha (1989), in his article, "*A Study on Deposit and Credits of Commercial Bank's in Nepal*" has conclude that h the credit deposit ratio would be 51.30%; other things are remaining the same, in 2004, witch was the lowest under the period of review. So he had strongly recommended that the commercial bank should try to give more entering new field as far as possible. Otherwise, they might not be able to absorb even its total expanses.

Shiva Raj Shrestha (1999), Deputy Chief officer of NRB Banking Operation Department, has given a short glimpse on the, "*Portfolio Management in Commercial Banks, Theory and Practice*". Shrestha emphasis issue in the article.



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

1. Economic efficient and effective investment mix;
2. Higher return which is comparable with alternative opportunities available according to the risk class investors;
3. Maximum tax concession;
4. Good liquidity with adequate safety of investment;
5. Flexible capital investment;
6. Certain capital gain

In the view of above aspects following strategies are adopted.

1. Do not hold any single security; try to have a portfolio of different securities;
2. To find out the risk of securities depending upon the attitude of investor toward risk;
3. Do not put all the eggs in the one basket to have diversified investment;
4. To find out the invisible assets(generally securities) having scope for better returns depending upon individual characteristic like age, need, health, deposition, tax liabilities and other liabilities.
5. To identify of securities for investment to refuse volatility of return and risk.
6. Choose such a portfolio of securities, which insures maximum return with minimum risk or lower of return with added objectives of wealth maximization. However, Shrestha has also presented the many approach to be adopted for designing a good portfolio and its good management.

7. To develop alternative investment strategies for selecting a better portfolio, which will ensure a trade-off between risk and return so as to attach the primary objectives of wealth maximization at lower risk.

Shrestha has presented two types of investment analysis technique; i. e. fundamental analysis and technical investment analysis to consider any securities such as equity, debenture or bond and other money and capital market instrument. He has suggested that the bank has international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence.

According to Shrestha the portfolio management activities of Nepalese commercial banks at the present are in nascent stage. However, on the other hand, most of banks are not doing such activities so far because of the following reasons.

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

Regarding the joint-venture commercial banks, they are very eager to provide such service but because of above-mentioned problems very limited opportunities are available to the banks for exercising the portfolio management, Shrestha has find out the following conclusion.

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

Bhagat Bista (1971), in his research paper, “*Nepalma Adhunik Banking Byabastha*” has made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of joint venture banks a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee based activities into the economy. These are indeed significant milestones in the financial development process to the economy.

### **2.9.3 Review from Thesis**

Raja Ram Khadka (1995), on his study, “*A Study on the Investment Policy of Nepal Arab Bank Ltd.(NABIL) in Comparison to the Other Joint Venture Banks of Nepal*” compared NABIL with that of Grindlays Bank Ltd. (NGBL) and Nepal

Indosweze Bank Ltd. (NIBL). The main objectives of the study were to evaluate the liquidity, assets management efficiency and profitability positions related to fund mobilization of NABIL in comparison to the other joint venture banks. To discuss fund mobilization and investment policy of NABIL in respect of its fee-based off-balance sheet transaction and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of the total deposits, and net profit of sample banks. To find out the relationship between deposit and investment, deposit and loan and advances and net profit and outside assets of sample banks. To evaluate the trends of deposit utilization and its projection for next five years of in case of NABIL comparing it with that of other JV Banks. And to suggest and recommend some measures on the banks of comparative fund mobilization and investment policy of NABIL and other JV Banks for the improvement of financial performance of NABILL in future.

Prem Bahadur Shahi (1999) has done research on “*Investment Policy of Commercial Banks in Nepal: a Comparison Study of Nepal Bank Ltd. (NBL) and joint venture banks (JVBs.)*” . The main objectives of his study were to evaluate the liquidity, asset management efficiency and profitability and risk position of NBL in comparison to the JVBs. To discuss fund mobilization and investment policy of NBL in respect to its fee-based off-balance sheet transaction and fund-based on-balance sheet transaction in comparison to the JVBs. To find out the empirical relationship between various important variables i.e. deposits, loan and advances investment, net profit etc. To analyze the deposit utilization trend and its projection for five years and to conduct hypothesis test to find whether there is significant difference between the various important ratios of NBL and the JVBs. And to provide a package of workable suggestions and possible guidelines to improve investment policy of NBL and the JVBs based on the finding of the analysis for improvement of financial performance of NBL in future.

Shahi has found that the liquidity position of NBL is comparatively better than that of the JVBs. It has more portions of current assets as loan and advances but less portion as investment on government securities. NBL is comparatively less successful in on-balance sheet as well as off-balance sheet operation than that of the JVBs. It has not followed by any definite policy with regard to the management of its assets. It predicts that in the coming days, NBL can't mobilize and utilize its resources as efficiently as the JVBs to maximize the returns and may lag behind in the competitive market of banking. He further found that profitability position of NBL is comparatively not better than that of the JVBs. So NBL must maintain its high profit margin in future. He has further found that there is comparatively higher risk in NBL than that of the JVBs regarding various aspects of the banking function. NBL has not been more successful to increase its sources of funds i. e. deposits mobilization. Similarly, it seems to have failed to maintain high growth rate of profit. It has not made any effective strategy to win the confidence of the shareholders, depositor and its all customers. There is significant relationship between deposits and loan and advances as well as deposit and total investment. Which is negative of NBL, but not between profit and outside assets in case of NBL and the JVBs. NBL has higher trend values of loan and advances and deposit but lower trend value of net profit and total investment in comparison to the JVBs.

Karmacharya (1978), entitled "*A Study in the Deposit Mobilization of NBL*" has tried to examine the role of NBL in the deposit accumulation and to see how far the bank is able to utilize the collected deposits. This study covers 8 years data from year 1970 to 1977 and based on secondary data. Correlation, percentage and ratio analytical tools of statistics are used for the analysis and interpretation of data.

The writer found that the deposit credit ratio is only 52% on average which shows unutilized resources are increasing. The security-marketing corporation, which is recent, established, can play an active role for utilization of unutilized resources. The writer further found that NBL should not only concentrate in the extension of short-term credit only. Bank should increase the level on priority sector and extent its branches to meet growing needs of the country.

Agrawal (2002), in the thesis entitled, “*A study on deposit and investment position of Yeti finance Company Ltd.*” has tried to examine the trend of the deposit position and investment position of the Yeti Finance Company. That study was conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of 5 years i.e. 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 helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

The minimum amount to open accounts and interest rate in 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 in investment.

Roy (2003) on his thesis entitled, “*An investment analysis of Rastriya Banijya Bank*” has tried to analyze relationship of loan and advance, and total investments with total deposit. And to compare it with that of NBL and to compare loan and advance, total investment, total deposit and net profit of RBB and compare it with of NBL. That study was based in secondary data covering five years period form 1992/93 to 1996/97. The researcher used most of financial tools and coefficient of correlation, multiple regression analysis, least square, standard deviation and standard deviation and coefficient of variation (CV) as statistical tools.

The researcher has found that RBB has good deposit collection, loan and advances and small investment in government securities. It also found that profitability position of RBB is the worth. RBB needs immediate step to increase its profitability. It also further found that RBB has more low quality of loan and advances. The researcher has recommended that RBB should enhance its investment in securities. Small amount investment in securities of good company brings better income that large amount investment in securities of worse companies. So RBB needs to conduct proper pre-analysis before such investment. He also recommended that RBB should decrease loan loss by decreasing its poor quality of loan and advance. It needs to revise credit collection policy. He further suggested that RBB should decreases interest expenses and unnecessary fixed assets expenses and administration expenses should be controlled. Moreover RBB should enhance its off-balance sheet operation, remittance in order to increase its earnings.

Tandukar (2003) in the thesis entitled, “*Role of NRB in Deposit Mobilization of Commercial Bank*” has tried to examine role of NRB in deposit collection by the commercial banks and to analyze the trends of deposit mobilization towards total investment and loan and advances. Projection is for five years i. e. 2098/99 to 2002/2003. The data used in that study is both secondary and primary nature. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, and risk ratio and coefficient of correlation and trend analysis as statistical tools. The researcher took 17 commercial banks as population and two banks i.e. Nepal Bangladesh Bank Ltd. (NBBL) and Everest Bank Ltd.(EBL) as sample banks. The researcher found that, it can said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. And deposit and loan and advances of NBBL are higher than EBL but in code of the investment of EBL is able to mobilize more funds than NBBL in this sector.

In the study, only concentrate on two banks. The researcher has recommended to NBBL that diversification of loan and investment is highly suggested to the bank. As NBBL has given priority in investment in treasury bills which is risk free but it yields very low return to the bank. And recommended to EBL to collect the deposit by initiating various new programs to attract the customer for this it can pay a higher interest rate than other banks recently providing.

Pant (1979) entitled, “*A study of Deposit Collection and Utilization of Commercial Banks in Nepal*” with the main objectives are as follows:

- To find out whether commercial banks have been able to collect deposit from different sectors.
- To find out whether banks are to satisfy financial need of economy.



- To find out relationship between deposits and loans.

For the purpose of study, activities of NBL and RBB are taken together the period of 14 years i.e. 1965/66 to 2978/79. Only data is used secondary in the study to gather the required information regarding existing position of commercial banks. Researcher found that deposits are collected much from individuals and deposits from organization is very low, similarly more loans are granted to the commercial sector and a little amount to the agriculture and industrial by commercial banks. They can not utilize the deposit properly. The researcher further found that there is positive relationship between deposits and loans. He recommended that commercial banks should not limit their lending activities in only business sectors. It should be distributed in different sectors. Commercial banks also offer long-term loans not only and short-term loans, short-term period. At last, the researcher suggested that the fully interest rates should be changed by making its more suitable to expand the services of commercial banks in all sectors.

Upendra Tuladhar (2000) “*A Study on the Investment Policy of Nepal Grindlays Bank Ltd. in Comparison to Other Joint Venture Banks of Nepal*” the main objectives were, to study the fund mobilization and investment policy with respect to fee-based off-balance sheet transaction and fund-based on-balance sheet. To evaluate the liquidity, efficiency of assets management and profitability position. To evaluate the growth ratios of loan and advances and total investment with respect to growth rate of total deposit and net profit of sample banks. To evaluate trend of deposit utilization toward total investment, loan and advances and its projection for five years. To perform empirical study on the customers views and ideas regarding the existing services and adopted investment policy of the joint venture banks and to provide suggestions and recommendations on the basis of the study.

Tuladhar in his study found that on the basis of primary data concludes on a well-known fact that most of part of nation is surrounded by the rural areas; it is quite hard to think about the development of the country without spreading banking facilities among these areas. Further, on the basis of secondary data, the liquidity ratio of NGBL has maintained successful in its on-balance sheet operation. But in the case of off-balance sheet operation, NGBL is advance than NABIL and HBL. It predicts that NGBL has successfully maintained and manages its assets towards different income generating activities. He further explain that in the case of profitability ratio NGBL is in higher profitability position than NABILL and HBL as well as it provide interest to the customers for different activities is highly consistent. The growth ratio of net profit seemed to be satisfactory than other. Mr Tuladhar further found that in the case of significance difference on loan and advances to total deposit ratio. Total investment to total deposit ratio, mean ratio, mean of total OBS operation to loan and advance ratio, means of investment in government securities to current ratios, mean of loan and advance to total deposits ratio in between NGBL with NABIL and HBL respectively. But there is no significant difference of mean of total interest earned to total outside assets was found in NGBL with NABIL and HBL respectively. In the case of coefficient of correlation, there is negative correlation between NGBL and NABIL but positive correlation between NGBL and HBL in respect to deposit and total investments. In case of loan and advances to total deposit ratios increasing trends are found for NGBL and NABIL. But in case of HBL, it is decreasing trend. And in case of total investment to total deposit ratios both NGBL and NABIL used to ignore investment, as trend seemed to be decreasing. (Tuladhar, 2000 p. 35)

Samiksha Thapa (2001), on her study “*A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and Other Joint Venture Banks*” shows the major

objectives were to evaluate the liquidity, assets management efficiency, profitability and risk position of NB bank in comparison to NABIL and NGBL. To analyze the relationship between loan and advance total investment with other financial variables of sample banks. To examine the fund mobilization and investment policy of NB bank through off-balance sheet and on-balance sheet activities in comparison to the other two banks. To study the various risk in investment and to analyze the deposit utilization trend and its projection for improving the investment policy of NB bank on the basis of the findings of the analysis. She also found that the liquidity position of NB bank is comparatively better than that of NABIL and NGBL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. It has good deposit collections, is made enough loans and advances but it has made the negligible amount of investment in government securities. The NB bank is not in better position regarding its on-balance as well as off-balanced activities in compare to NABIL and NGBL. It does not seem to follow any definite policy regarding the management of its assets.

She further found that the profitability position of NB bank is comparatively worse than that of NABIL and NGBL. The bank must maintain its high profit margin for the well being in future. NB bank has maintained high growth rate in comparison to other banks through it is not successful to make enough investment. And can say that the bank is successful in increasing its sources of funds and its mobilization. Finally, she concluded that there is significant relationship between deposit, and loan and advances, outside assets and net profit of NB, NGBL and NABIL bank. The position of NB bank in regard to utilization of the fund to earn profit is not better in compare to NABIL and NGBL. NB bank has not provided ATM facility, credit card facility, any branch bank facilities and web site etc but these facilities are providing by NABIL and NGBL. She also found that NB bank

is not in better position regarding the proportion of fee-based activities to loan and advance in compare with other two banks during the study period. NB bank in terms of recovery of loan is worse in comparison of other.

## **2.10 Conceptual Review of Investment**

Though commercial bank can earn some interest and dividend from the investment on government securities share and debentures, it is not the major portion of income, but it is treated as a second source of banking business.. Banks are such types of institutions, which deal in money and substitute for money. They deal with credit and credit instrument. The most important thing for the bank is good circulation of credit. Fluctuate flow of credit and decisions harm the whole economy and the bank as well. Thus, to collect fund effectively and its well utilization is the very challenging task for the bank. The decision of an investment of fund may be the question of life and death for the bank. Commercial banks may extend credit by purchasing government securities, bond and shares for several reasons.

Some of them are given as.

1. It may want to space its maturities so that the inflows of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
2. It may wish to have high-grade marketable securities to liquidate if its primary resource becomes inadequate.
3. It may also be forced to invest because the demands for loan has decreased or is not sufficient to absorb its excess reserve.

However investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors may demand funds in great volume 43 without previous notice of banks. The

investment may be of a type that can be marketed quickly with little or no shrinkage in volume.

Jerome B Chone Edward, D Zinbarg and Arthar Zeiped (1997) define the word investment “Investment has many factors, it may involve putting money into bond, treasury bills, or notes or common stocks, or painting of real estates, or mortgages or oil ventures, or selling short in bear markets. It may involve options, straddles, tights, warrants, convertibles, margin, gold silver, mutual funds, money market funds, index funds and results in accumulation of wealth or dissipation of resources diversity and challenge. Characterizethe field for the able or lucky, the reward may be substantial. For the uninformed the results may be disastrous”.

According to John M. Cheney and Edward A. Moses (1986), “The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth the higher the must be received. An investor seeking higher return must be willing to face higher level of risk.” The word investment beings forth vision of profit, risk, speculation and wealth. Most of people invest their excess fund to different sectors for future financial gains and to protect the purchasing power of theirs saving against price of goods, due to inflation”.

V K Balla and S K Tuttja (1983) defines, investment in three basic concept

- Economist investment – that is an economist’s definition of investment.
- The sense in which we are going be very much interested namely financial investment.
- Investment in a mire general or extended sense, which is used by “ the man on the street”.

Frank K Reilly (1986), defines investment in this words, “ An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time. The funds are the expected rate of inflation and also for the uncertainty involved in the future flows of funds.”

From the above definition, it is clear that an investment means to trade a known rupee amount today for some expected future stream of payment of benefits that will exceed the current outlay by an amount that will compensate the investor for the time. The funds are committed for the expected changes in prices during the period and for the uncertainty involved in expected future cash flows. Thus investment is the most important function of commercial banks. It is the long-term commitment of the bank in the uncertain and risky environment. It is very challenging task for commercial banks. So a bank has to be very cautions while investing their funds in various sections. The success of the bank depends heavily upon the proper management of its invisible funds.

Investment promotes economic growth and contributes to a nation’s wealth. When people deposit money in a saving account in a bank for example, the bank may invest by lending the funds to various business companies. These firms in turn may invest the money in new factories and equipments to increase their production. In addition to borrowing from banks most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bond to obtain funds to invest in such projects as the construction of dams, roads and schools. All such investment involves a present sacrifice of income to get an expected future benefit. As a result, investments raise a nation’s standard of living. (Encyclopedia of Britannica, 1984: 7).

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

### **2.10.1 Investment on Other Company’s Share and Debentures**

Due to excess fund and least opportunity to invest that fund in much more profitable sector and to meet the requirement of the Nepal Rastra Banks directives. Many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. Nowadays most of the commercial banks have purchase regional development bank’s, NIDC and other development bank’s shares.

### **2.10.2 Other Use of Fund**

A commercial bank must maintain the minimum bank balance with REB ie. 6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Similarly 3% cash balance of local cash balance, in local currency account must be maintained in the value of the bank. Again a part of the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationary etc.

### **2.10.3 Off Balance Sheet Activities**

It involves contracts for future purchase and sale of assets and all these activities are contingent obligation. These are not recognized as assets or liabilities on balance sheet. Some good examples of these items are letter of credit, letter of guarantee, bills of collection etc. Nowadays such activities are stressfully highlighted by some economist and finance specialist to expand the modern transaction of a bank. Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and a study of the trend of those factors as shown in a series of statement (Mayer, J.N., 1961: 4).

Financial statement analysis is helpful to the decision-maker for finding out favorable or unfavorable situation of a business concern. Therefore financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characterizes of a bank. Different type of financial statement analysis can be used on basis of our objective.

## **2.11 Research Gap**

In the condition of research process I found that no one is done deep analysis of Nabil. Previous researchers were either on the problem or prospects of commercial banks. But some researchers have covered both problems and prospects of commercial bank. Most of researcher was done in vast way. Some researcher covered all the commercial banks and some were either in comparison study between commercial banks or study of commercial banks. But this study is focused on a particular Nabil. This study has covered both the problems as well as remedies on deposit mobilization of Nabil. This study is specific in order to analyses and explain the present pattern of increasing trends of deposit in the bank although interest rate continuously decreasing. The findings of previous researcher were merely based on secondary data. But this study based on primary as well as



secondary data. Previous researcher has not done, moreover this study has not been done by previous researcher as separately. Thus the fill up the gap the current research has been conducted.

A large no. of people in Nepal resides in rural areas. Most of them depend on agriculture and agriculture related activities for their live hoods; most of them can't save much to attract deposit taking instructions to open the branch of bank and even the poor and ultra poor in rural areas can save. Their saving could be used to improve the supply of financial resources to rural people themselves; reduces poverty and underdevelopment from rural areas. Most of the commercial banks have a wrong notion that the poor not bankable. They can't repay their loan and pay rate of interests. So they are interested in profitable business. If commercial banks do not lend their financial resources to rural areas by expanding their banks, they have to depend on funding from bilateral and multilateral donor agencies.

So banks play a vital role in developing country like Nepal. If banks perform well or be able to earn profit, it will definitely support of nation. It shows the important of banks, which helps in national growth. So, this study has been conducted

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

Research methodology describes the method and process applied in the entire subject of the study. This chapter describes the methodology employed in the study of deposit mobilization of Nabil bank. The followings are the details of research methodology used in the analysis.

#### **3.1 Research Design**

Research Design is the plan structure and strategy of investigation conceived so as to obtain answer to research question and control variance. To achieve the objectives of the study, descriptive as well as analytical research design have been used. This study is based on primary as well as secondary data. Some simple statistical methods such as trend line and correlation analysis have been applied to examine the facts of data. Not only data but also recommendations and suggestions are also derived form the study by taking the Nabil, as a sample. So that all concerned can achieve from the study.

#### **3.2 Source of Data Collection**

##### **3.2.1 Primary Data Collection**

The primary data are collected from the field directly. The data are collected personally through questionnaires, observations and interviewing method. These data highlights the real and fact information of Nabil.

The primary data are collected from the bank staffs and cliends. Primary data are to be taken from 20 persons of bank staffs and 30 person of clients.

### **3.2.2 Secondary Data Collection**

The secondary data are collected from the secondary sources. This secondary source consists of two sources. One is internal source and other is external source. These sources of information will be collected namely.

#### **3.2.2.1 Internal Sources**

- ) Annual Reports of the Bank
- ) Interest rate chart
- ) Brochure
- ) Booklets, etc.

#### **3.2.2.2 External Sources**

- ) Book Publications
- ) Journal Articles, Articles from Newspapers
- ) Banking Statistics of NRB
- ) Local Newspapers
- ) Previous filed work reports, etc.

### **3.3 Classification and Tabulation of Data**

The data collected is classified and tabulated in order to make it easily understandable. The data is classified in chronological order, i.e., on the basis of time intervals. After classification, the data is tabulated, i.e., arranging the data in column and rows systematically.

### **3.4 Diagrammatic Presentation of Data**

Various diagrams are used to present the data more clearly. The diagrams used in this study are:

- ) Bar Diagram
- ) Trend Diagram

### **3.5 Analytical Tools**

Various tools are used in this thesis. Menly statistical tools and financial tools are used , these tools are as follows:

#### **a. Statistical Tools**

- ) Coefficient of Correlation
- ) Trend Analysis

#### **b. Financial Tools**

- ) Percentage Analysis
- ) Ratio Analysis
- ) Growth Rate Analysis

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

Presentation and analysis of data is the most important in any research or dissertation. So that, this chapter is more effective and evaluative in the research process. Therefore analysis parts are presented in detailed. Different financial, statistical and other required analyses, which are related to deposit mobilization, are studies to evaluate and analyze the performance and condition of financial position of Nabil Bank. This analysis helps in to improve the any wrong situation of the banks financial condition. So that deposit mobilization of Nabil studies the economic good or bad trend of the bank. Data are analyzed according to the figures in the table and mentioning the reasons of increasing and decreasing trend of data. Nabil Bank Ltd. and it's customer's interest and Nabil's policy so far as well as to recommend suggestions for its improvement through this research studies.

#### **4.1.1 Deposit Position of Nabil**

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

institutions which systematically generated or mobilize, helps in the existence of the banks in long time.

**Table 4.1**  
**Condition of Total Deposit**

Rs. in 000

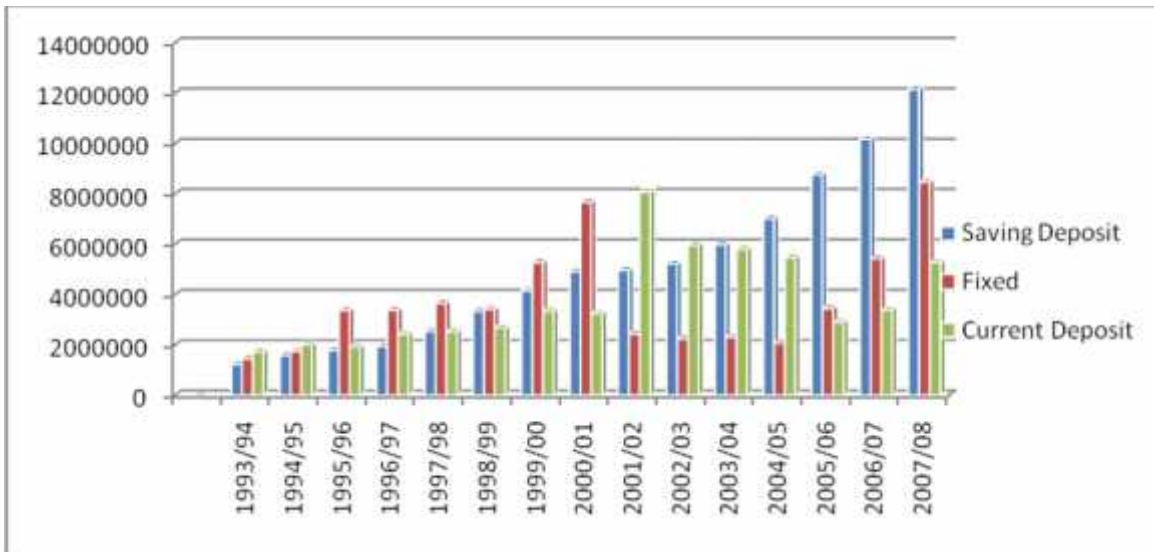
<b>Year</b>	<b>Saving Deposit</b>	<b>Fixed Deposit</b>	<b>Current Deposit</b>	<b>Total Deposit</b>	<b>Percentage</b>
1993/94	1234311	1451931	1721394	4407636	-
1994/95	1589031	1748813	2016309	5354153	21.47
1995/96	1793596	3370271	1925598	7089465	32.41
1996/97	1942816	3384011	2425456	7752283	9.35
1997/98	2546739	3659308	2531718	8737765	12.71
1998/99	3352621	3420279	2691379	9464279	8.31
1999/00	4150187	5278274	3351048	12779509	35.03
2000/01	4917183	7667541	3254283	15839007	23.94
2001/02	4972057	2446846	8087525	15506428	-2.10
2002/03	5229723	2252545	5965393	13447661	-13.28
2003/04	5994121	2310572	5814339	14119032	4.99
2004/05	7026334	2078535	5481740	14586609	3.31
2005/06	8770759	3449094	2910589	15130442	3.72
2006/07	10187354	5435189	3395239	19017782	25.69
2007/08	12159966	8464086	5284368	25908420	36.23

*Sources: Different Annual Reports of Nabil Bank*

Above table shows that the condition of deposits which is the main sources of banks or financial institutions. In this table we calculated the amount of total deposit. Saving and fixed deposit are the actual amount of deposit which was given by the banks financial reports and but in current deposit we included the call deposit, margin deposit, and other deposit for the calculation. The table shows that the banks deposited amount gradually increased from 1993/94 to 2007/08. It indicate that the bank able to collect the deposit from different sectors, people and institutions by the attraction of the depositor. In saving and fixed deposits banks

give some interest and in current it gives only drawn facilities not interest. In 1993/94 total deposited amount was Rs. 4407636 thousand and increase gradually up to 2000/01 Rs. 15839007 thousand. But decrease in 2001/02 to Rs 15506428 thousand and 2002/03 Rs 113447664 thousand with compare to 2000/01. And increase in 2006/07 and 2007/08 from 19017782 thousand and 25908420 thousand respectively. In this time period all the saving deposits, fixed deposits and current deposits are increasing respectively. In percentage the total deposit amounts increase in 1994/95 was 21.47% and in 1995/96 it was 32.41% and the percentage of increase is positive up to 2000/01 and in 2001/02 and 2002/03 it was negative as 2.10% and 13.28% respectively. But it was increase as 25.69% in 2006/07 and 36.23% in 2007/08 respectively. The negative condition of deposit means the law attraction of people in the deposit and in that time Maoist revolution and other economic crisis.

**Figure 4.1**  
**Total Deposit Position of Nabil Bank**



#### 4.1.2 Fixed Deposit to Total Deposit Position of Nabil

Fixed deposit account means an account of amount deposited in a bank for certain period of time. A person can renew the fixed deposit period after the expiry of the

fixed time period. Usually, the interest is awarded every 6 month in this deposit at NABIL Bank. Any Nepalese person can open fixed account with minimum balance i.e. Rs. 50000 in NABIL. The rate of interest in the fixed deposit is higher than that of other deposit. A person can not deposit more money again in this deposit before the fixed time period. The table shows the fixed deposit position and percentage of fixed deposit with comparison to the total deposit.

**Table 4.2**  
**Fixed Deposit to Total Deposit Ratio**

Rs in 000

<b>Year</b>	<b>Fixed Deposit</b>	<b>Total Deposit</b>	<b>Ratio in %</b>
1993/94	1451931	4407636	32.94
1994/95	1748813	5354153	32.66
1995/96	3370271	7089465	47.54
1996/97	3384011	7752283	43.65
1997/98	3659308	8737765	41.88
1998/99	3420279	9464279	36.14
1999/00	5278274	12779509	41.30
2000/01	7667541	15839007	48.41
2001/02	2446846	15506428	15.78
2002/03	2252545	13447661	16.75
2003/04	2310572	14119032	16.36
2004/05	2078535	14586609	14.25
2005/06	3449094	15130442	22.79
2006/07	5435189	19017782	28.57
2007/08	8464086	25908420	32.66

*Sources: Different Annual Reports of Nabil Bank*

Fixed deposits to total deposits ratio indicate that amount of fixed deposits situation in the total deposits. The above table shows that the increasing volumes of fixed deposit during the 12 years study period. From 1993/94 to 2000/01 the total fixed deposit amount was increasing trend i.e. 1451931 thousand to 7667541 thousand respectively. It is decrease in 2001/02 to 2004/05 i.e. Rs 2446846



thousand in 2001/02 to 2078535 thousand in 2004/05 respectively. Similarly, in percentage the part of fixed deposit in total deposit was 32.94% in 1993/94 and it was increases up to 2000/01 to 48.41% but after that it is also decrease continuously to 32.66% in 2007/08. Because of different financial and economic disorder in that period of time. The amount of fixed deposit and its percentage was little decrease in the time period was low interest rates and affected by other factor.

#### 4.1.3 Saving Deposit to Total Deposit Ratio

The deposit in saving account has also become one of the vital features of commercial banks. In NABIL Bank the minimum balance in saving account is Rs 25000. So it is a little more amount than the other commercial banks. But the saving account holders' doesn't has the same facility of withdrawn money as the current account holders. If the customer wants to withdraw more money from the bank, in this situation they can withdraw more money.

**Table 4.3**  
**Saving Deposit to Total Deposit Ratio**

Rs in 000

Year	Saving Deposit	Total Deposit	Ratio in %
1993/94	1234311	4407636	28.00
1994/95	1589031	5354153	29.68
1995/96	1793596	7089465	25.30
1996/97	1942816	7752283	25.06
1997/98	2546739	8737765	29.15
1998/99	3352621	9464279	35.42
1999/00	4150187	12779509	32.48
2000/01	4917183	15839007	31.04
2001/02	4972057	15506428	32.06
2002/03	5229723	13447661	38.89
2003/04	5994121	14119032	42.45
2004/05	7026334	14586609	48.17
2005/06	8770759	15130442	57.96

2006/07	10187354	19017782	53.56
2007/08	12159966	25908420	46.93

*Sources: Different Annual Reports of Nabil Bank*

Table 4.3 indicates that the amount deposited in saving account from 1993/94 to 2007/08. The figure shows that the increasing trend of saving deposits in the part of total deposits. The saving deposits amount was Rs 1234311 thousand in 1993/94 and it was continuously increases up to the study period i.e. 2005/06 was Rs 8770759 thousand respectably. The amount of saving deposits increases in the study period and its percentage increases or decreases are depends upon the amount of increases or decreases. So that the amount of saving deposits increases and percentage of saving deposit also increases because of amount of deposit increases. The saving amount includes in the he total deposit amount. Therefore the percentage i.e. ratio of saving deposit with comparison to the total deposit was 28% in 1993/94, 29.68% in 1994/95 and continuously increases unto 2005/06 i.e. 57.96%. It indicates that the amount of deposit mainly portable/moveable by the collection of saving deposit than that of fixed deposit and current deposit, so that we can find out the conclusion of the deposit collection. Much more people are attractive in the collection of money in saving deposit.

The continuous increase of saving deposit shows that the expansion of economic activities as well as successful collection of deposit. This also shows that the improving saving habits of Nepalese people even with the lower income.

**Table 4.4**  
**Current Deposit to Total Deposit**

Rs. in 000

<b>Year</b>	<b>Current deposit</b>	<b>Total deposit</b>	<b>Ratio in %</b>
1993/94	1721394	4407636	39.05
1994/95	2016309	5354153	37.66
1995/96	1925598	7089465	27.16
1996/97	2425456	7752283	31.29
1997/98	2531718	8737765	28.97
1998/99	2691379	9464279	28.44
1999/00	3351048	12779509	26.22
2000/01	3254283	15839007	20.55
2001/02	8087525	15506428	52.16
2002/03	5965393	13447661	44.36
2003/04	5814339	14119032	41.18
2004/05	5481740	14586609	37.58
2005/06	2910589	15130442	19.23
2006/07	3395239	19017782	17.85
2007/08	5284368	25908420	20.39

*Sources: Different Annual Reports of Nabil Bank*

Current deposits are that type of deposit which is withdrawn by the depositor in any time when required. In current deposit bank does not give any interest. But bank gives any time money and overdraft facilities to the beliefs person or depositors. From the above table-4 shows the total current deposit with the comparison of total deposit of NABIL and its ratio in the study period. In 1993/94 the current deposit amount was 1721394 thousand and its percentage was 39.05% and its amount was increases in 1994/95 at 2016309 and percent is 37.66%, But the percentage decreases from 39.05% to 37.66%. The amount of current deposits was increases up to study period and percentage of increase was little floatable i.e. 27.16% in 1995/96, 31.29% in 1996/97 and it was lowest than other years and at

last it was 37.58%. It indicates that over the one-third part of total deposit bears by the current deposit. So that most of the depositors wanted to deposit the money in current deposit/ account for daily and emergency purpose and business purpose respectively. The ratio of current deposit to total deposit indicates that the high degree of percentage in total deposit account.

#### **4.1.5 Cash at Bank to Total Deposit**

Cash is the one of the most important things, which is required in every steps of life. Therefore it measures the personality of a person and of an institute. A person or a businessman, who have more money/cash, indicates the rich person. Now a day, if not good management in saving of cash, it has been dangerous. Therefore many of the people collected the money/cash in bank. The bank gives interest in fixed and saving account and it gives withdrawn facilities in current account and overdraft facilities also in current account to believer depositors.

Therefore, cash is the property of bank and other financial institutions. It is comes from capital or long terms deposited amount or fixed deposited amount. Bank could invest this type of amount and earns more amounts like interest. The limited or required amount must be in liquidity position, which must be required for payment of cash, cheque and other drafts and overdrafts

**Table 4.5**  
**Cash at Bank to Total Deposit**

Rs. in 000

<b>Year</b>	<b>Cash at Bank</b>	<b>Total deposit</b>	<b>Ratio in %</b>
1993/94	706182	4407636	16.02
1994/95	1114575	5354153	20.82
1995/96	797909	7089465	11.25
1996/97	816150	7752283	10.53
1997/98	1153749	8737765	13.20
1998/99	630945	9464279	6.67
1999/00	910071	12779509	7.12
2000/01	812906	15839007	5.13
2001/02	1051819	15506428	6.78
2002/03	1144767	13447661	8.51
2003/04	9704865	14119032	68.74
2004/05	5593806	14586609	38.35
2005/06	3183587	15130442	21.04
2006/07	2704069	19017782	14.21
2007/08	4855669	25908420	18.74

*Sources: Different Annual Reports of Nabil Bank*

From the above table no. 5 we can see the amount of cash in bank and its position in total deposited amount. Therefore, in 1993/94 the banks cash amount was Rs. 706182 thousand and it was 16.02% in total deposit, i.e. It was 16.02 in ratio of total deposit. In 1994/95 the cash collected amount increased up to Rs1114575 thousand from previous and it was 20.82% in total collected /deposited money. In 1995/96 it was decreased in Rs 797909 thousand and 11.25% in total deposited amount. Similarly the fluctuate amount was collected and it was least collected or balanced in 2000/015.13% and amount was Rs 812906 thousand, this amount was greater than 1993/94's amount but low percentage balance in total deposited

amount in bank because of different financial unbalance condition in that period. But it was little progress, and in 2003/04 it was highest i.e. 68.74%. Therefore, in the amount of collected cash bank progress and reserve the cash in bank. So that minimum cash balance must be required I bank is 5%, which was covered by the bank. Therefore its cash reserve ratio was so satisfactory.

#### 4.1.6 Cash at bank to Current Assets

Cash is the one of the most important part of current assets. Which is convertible in a years time period was required in any time. In current assets the high parts of cash is suitable for the sudden required, total deposited amount was the banks liability and current assets means its property.

**Table 4.6**  
**Cash at Bank to Current Assets**

Rs in 000

Year	Cash at Bank	Current Asset	Ratio in %
1993/94	706182	5384481	13.12
1994/95	1114575	6369960	17.50
1995/96	797909	8496966	9.39
1996/97	816150	9729808	8.39
1997/98	1153749	11041480	10.45
1998/99	630945	11632152	5.42
1999/00	910071	15095578	6.03
2000/01	812906	19573775	4.15
2001/02	1051819	17391614	6.05
2002/03	1144767	16310710	7.02
2003/04	9704865	16407361	59.15
2004/05	5593806	16825096	33.25
2005/06	4929200	16726650	29.47
2006/07	2704060	16345560	16.54
2007/08	4855660	15688660	30.95

*Sources: Different Annual Reports of Nabil Bank*

Mentioned as above table no. 4.6, the bank had same amount of cash as table no. 4.5. But it was different in percent because of different amount of current assets. The cash part in current assets was 13.12% in 1993/94 and it was 17.50% in 1994/95, it was least in 2000/01 i.e. 4.15% and highest in 2003/04, in percentage 59.15% at the 15 years study period. And it was 33.25% in 2004/05. it indicates that the part of cash in current assets was so satisfactory. Or the current assets in 1993/94 was Rs 5384481 thousand, in 1994/95 it was Rs 6369960 thousand and increased up to Rs 19573775 thousand in 2000/01. So that in 2000/01 the amount of total current assets was highest in the study period but least cash amount. The current asset in last of the study period was Rs 16825096 thousand and cash was Rs 5593806 thousand which was 33.25%. Therefore it indicates that the part of cash was larger than other current assets in study period.

#### **1.4.7 Loan and Advance or Credit Position of Nabil**

The total credit is the loan and advance and investment. Loan is the sum of the money that will be repay by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective is to increase future wealth.

Total credit is composed of loan and advance and investment. Nabil has invested different treasury bills and invested in different development' shares. Up to 2007/08 Nabil Bank invest its amount in different 12 development bank like Nirdhan Utthan Bank Ltd. Eastern Rural Development Bank, Mid Western Rural Bank, Far Western Rural Development Bank, Sanakisan Development Bank, Swabalamban Bikash Bank Ltd. etc.

Its investment in different debentures and bond also, like IDBI bank bonds development bank of Singapore bond and Korean Development bank bond etc. Same like, loan and advance in performing loans and non performing loans. Bank also gives loan for public to different facilities like home loan, vehicles loan, study loan, purchase loan, business loan, industrial loan, staff loan and overdraft facilities etc.

**Table 4.7**  
**Loan and Advance or Credit Position of Nabil**

Rs in 000

Year	Loan & Advance Amount	Percentage Change
1993/94	2388250	-
1994/95	3419635	43.19
1995/96	4316492	26.23
1996/97	4636389	7.41
1997/98	5224075	12.68
1998/99	5788931	10.81
1999/00	7211418	24.57
2000/01	8324439	15.43
2001/02	7437894	-10.65
2002/03	7755952	4.28
2003/04	8189993	5.60
2004/05	10589670	29.30
2005/06	31019750	19.29
2006/07	15545778	-49.88
2007/08	21365053	37.43s

*Sources: Different Annual Reports of Nabil Bank*

Above table no 7 indicates that the condition of loan and investment of Nabil. Its loan and advance and investment granted by Nabil in different sectors. Loan and advance in 1993/94 was Rs. 2388250 thousand and it was increases gradually up to the study period as 2007/08. In 1994/95 the total credit amount was increases to 3419635 thousand and it was in percentage increases 43.19% than previous year.



After that the amount of credit was increases as 26.23% in 1995/96. In 1996/97 it was 7.41% in increases and gradually increases unto 2000/01 as 15.43% respectively. But in 2001/02 the percentage decreases by 10.65% and amount was Rs 7437894 thousand. And the credit amount was increases up to the study period by 4.28% in 2002/03, 5.60% in 2003/04 and 29.30% in 2004/05 and 37.43 in 2007/08 respectively.

**Table 4.8**  
**Loan and Advance to Total Deposit**

Year	Loan and Advance(Credit)	Total Deposit	Rs. in 000
			Ratio in %
1993/94	2388250	4407636	54.18
1994/95	3419635	5354153	63.87
1995/96	4316492	7089465	60.89
1996/97	4636389	7752283	59.81
1997/98	5224075	8737765	59.79
1998/99	5788931	9464279	61.17
1999/00	7211418	12779509	56.43
2000/01	8324439	15839007	52.56
2001/02	7437894	15506428	47.97
2002/03	7755952	13447661	57.68
2003/04	8189993	14119032	58.01
2004/05	10589670	14586609	72.60
2005/06	31019750	15130442	20.50
2006/07	15545778	19017782	81.74
2007/08	21365053	25908420	82.46

*Sources: Different Annual Reports of Nabil Bank*

The table no 4.8 shows that the loan and advance amount was same as table no 4.7 but its percentage in total deposit was differ. Its percentage in 1993/94 was 54.18% and in 1994/95 it was 63.87 % and gradually increases to the last of the

study period 2004/05. In 2004/05 its percentage was 72.60%. It shows that more than 50% of the deposited amount was given to loan and advance.

From above analysis, it can be said that there is a greater relationship between deposits and loan and advance or credit. Increase in deposits leads to increase in the loan and advance, but immense increase in the deposits leads to a little bit increase in loan and advance. The above analysis shows that more than 50% of the deposited amount has been succeeded to mobilize the resources. Its highest ratio is 63.87 and lowest ratio is 47.97. The higher amount of deposit of this bank than credit is due to the constriction of this bank in deposit collection. The bank successes to attract people to deposit their savings. Higher the CD ratio indicates the more effective working policy of the bank. So that, higher utilization of the resources in the bank means good managing ideas or policy of the bank.

**Table 4.9**  
**Loan and Advance to Current Assets**

Rs in 000

<b>Year</b>	<b>Loan &amp; Advance</b>	<b>Current Asset</b>	<b>Ratio in %</b>
1993/94	2388250	5384481	44.35
1994/95	3419635	6369960	53.68
1995/96	4316492	8496966	50.80
1996/97	4636389	9729808	47.65
1997/98	5224075	11041480	47.31
1998/99	5788931	11632152	49.77
1999/00	7211418	15095578	47.77
2000/01	8324439	19573775	42.53
2001/02	7437894	17391614	42.77
2002/03	7755952	16310710	47.55
2003/04	8189993	16407361	49.92
2004/05	10589670	16825096	62.94
2005/06	3109750	16726650	

2006/07	15545778	16345560	
2007/08	21365053	15688660	

*Sources: Different Annual Reports of Nabil Bank*

We can see from the above table no 4.9, loan and advance and current assets, it can found that more than 40% part of total current assets bears the loans and advance. The loan and advance in 1993/94 was 44.35% in total current assets. In 1994/95 it was 53.68%, 50.80% in 1995/96, and nearly half of the part of current assets was loan and advance and it was 62.94% in 2004/05.

**Table 4.10**  
**Loan and Advance to Saving Deposit Ratio**

Rs in 000

<b>Year</b>	<b>Loan and Advance</b>	<b>Saving deposit</b>	<b>Ratio in Times</b>
1993/94	2388250	1234311	1.93
1994/95	3419635	1589031	2.15
1995/96	4316492	1793596	2.41
1996/97	4636389	1942816	2.39
1997/98	5224075	2546739	2.05
1998/99	5788931	3352621	1.73
1999/00	7211418	4150187	1.74
2000/01	8324439	4917183	1.69
2001/02	7437894	4972057	1.50
2002/03	7755952	5229723	1.48
2003/04	8189993	5994121	1.37
2004/05	10589670	7026334	1.51
2005/06	3109750	8770759	035
2006/07	15545778	10187354	1.52
2007/08	21365053	12159966	1.76

*Sources: Different Annual Reports of Nabil Bank*

From the above table we can show that the relationship between loan and advance to saving deposit. In the year 1993/94 the loan and advance was Rs 2388250 thousand and saving deposit was Rs. 1234311 thousand and ratio was 1.93 times. It indicates that nearly two times of saving deposit was loan and advance given. And similarly its ratio was 2.15 times in 1994/95, 2.41 in 1995/96 and 2.39 times in 1996/97 respectively. But its ratio was decreased to 1.73 from 2.05 in 1998/99 with comparison of 1997/98. Similarly its ratio was 1.74 in 1999/2000 and 1.69 times in 2000/01 and at the end of study period its ratio was 1.76 times. But the ratio was more than 1, indicates that the loan and advance was not only depends on saving deposit. Other amount of deposit also bears the loan and advance.

**Table 4.11**  
**Loan and Advance to Total Fixed Deposit Ratio**

Rs in 000

<b>Year</b>	<b>Loan and Advance</b>	<b>Fixed Deposit</b>	<b>Ratio in Times</b>
1993/94	2388250	1451931	1.64
1994/95	3419635	1748813	1.96
1995/96	4316492	3370271	1.28
1996/97	4636389	3384011	1.37
1997/98	5224075	3659308	1.43
1998/99	5788931	3420279	1.69
1999/00	7211418	5278274	1.37
2000/01	8324439	7667541	1.09
2001/02	7437894	2446846	3.04
2002/03	7755952	2252545	3.44
2003/04	8189993	2310572	3.54
2004/05	10589670	2078535	5.09
2005/06	3109750	3449094	0.90
2006/07	15545778	5435189	2.86
2007/08	21365053	8464086	2.52

*Sources: Different Annual Reports of Nabil Bank*

We can say that the relationship between loan and advance and fixed deposit was same as loan and advance and saving deposit. Its ratio was 11.64 in 1993/94 and it was goes in increasing trend. the loan and advance to fixed deposit was optimum at 2004/05 was 5.09 times , indicates that more than five times of fixed deposit was invested or gives to other .

## 4.2 Growth Ratio of Nabil Bank

The growth ratio represents how well the bank is maintaining its economic and financial position. Higher the ratio is better performance of the bank and vice-versa. In this ratio, two growth ratios are studied which are directly related to deposit mobilization of the bank.

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

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

Where,

$D_n$  = Total amount of  $n^{\text{th}}$  year

$D_o$  = Total amount of initial year

$g$  = growth rate of amount

$n$  = Total no of years during the study period.

**Table 4.12**  
**Growth Ratio of Total Deposit**

Rs. in 000

Year	Total Deposit
1993/94	4407636
1994/95	5354153
1995/96	7089465
1996/97	7752283
1997/98	8737765
1998/99	9464279
1999/00	12779509
2000/01	15839007
2001/02	15506428
2002/03	13447661
2003/04	14119032
2004/05	14586609
2005/06	15130442
2006/07	19017782

2007/08	25908420
Growth Rate	13.48

From the above analysis, it is found that the growth rate of total deposit of Nabil bank is 13.48%. So it can be said that this bank must improve its deposit collection in higher growth rate. Therefore this bank should reform the existing policy into new activities, program, policy and rules and regulation which might help increased in the deposit of this bank.

**Table 4.13**  
**Growth Ratio of Total Credit**

Rs. in 000

<b>Year</b>	<b>Total Credit</b>
1993/94	2388250
1994/95	3419635
1995/96	4316492
1996/97	4636389
1997/98	5224075
1998/99	5788931
1999/00	7211418
2000/01	8324439
2001/02	7437894
2002/03	7755952
2003/04	8189993
2004/05	10589670
2005/06	3109750
2006/07	15545778
2007/08	21365053
Growth Rate	17%

Above table shows that the growth rate of total credit of Nabil is 17% under the year of study period. The growth rate of total credit of Nabil is little satisfactory with comparison of the growth rate of total deposit growth rate of this bank i.e.

13.48%. Therefore it can be concluded that, the bank seems in weak condition but it is good condition in growth rate with comparison of growth rate of total deposit.

### 4.3 Interest Rate and Different Deposits

#### 4.3.1 Interest Rate and Saving Deposit

Interest rates are most important in the every deposited amount, So that it is very much important for the every depositor. The saving deposit interest rate related to the amount of saving deposit. The saving deposit is a precautionary deposit. The table no 4.14 shows the saving deposit amount and saving deposit interest rate of Bank under the study period.

**Table 4.14**  
**Interest Rate and Saving Deposit**

Rs in 000

Year	Interest rate per annum	Saving Deposit
1993/94	5.00	1234311
1994/95	5.00	1589031
1995/96	4.50	1793596
1996/97	4.25	1942816
1997/98	3.50	2546739
1998/99	3.50	3352621
1999/00	3.50	4150187
2000/01	3.25	4917183
2001/02	3.00	4972057
2002/03	2.50	5229723
2003/04	2.00	5994121
2004/05	2.00	7026334
2005/06	2.00	8770759
2006/07	2.00	10187354
2007/08	2.00	12155966

*Sources: Different Annual Reports of Nabil Bank*

From the above table, the saving deposit interest rate was 5% and amount of saving deposit was Rs. 1234311 thousand in 1993/94 and it was same as



1994/95. And amount was Rs 1589031 thousand. The interest rate was decrease as 4.50% in 1995/96 and amount was Rs 1793596 thousand. The percentage decrease in interest was 10% and amount was increase in 12.87%. Similarly interest rate was decrease to 4.25% but amount was increased to Rs 1942816 thousand in 1996/97. In 1997/98, 1998/99 and 1999/2000 the interest rate was same as 3.50% and amount was Rs 2546739, Rs 3352621 and Rs. 4150187 thousand respectively. The interest rate was decreased by 17.65% and amount increased by 31.07%, 31.64% and 23.79% in 1997/98, 1998/99 and 1999/2000 respectively. And in 2000/01, the interest rate was 3.25% and amount was Rs 4917183. In 2001/02 the interest rate was 3% and amount of saving deposit Rs. 4972057 thousand. And percentage decreased by 7.69% and amount increased by only 1.16%.

Similarly the interest rate was 2.50% in 2002/03 and amount of saving deposit was Rs 5229723 thousand. The percentage of interest rate was decreased and amount of saving deposit was increased by more percentage increased by saving deposit than interest. In 2003/04 and 2004/05 the interest rate was nominal as 2% and amount was Rs 5994121 and Rs7026334 thousand respectively. In this period interest was decreased by 20% and amount was increased by 14.62% only which was differing from other year's increasing trend. And saving deposit was increased by 17.22% only in 2004/05.

The comparison between interest and saving deposit shows that saving deposit seems interest inelastic because it is increasing with time frame. This is for the reason that the mobilization of the resources increases the real income of the people and they save the money even in small scale. And for precautions, they want to deposit the money in the form of saving deposit in commercial banks although at a very low interest rate. They want to withdraw it whenever they need. As the result, the saving deposit amount was increases. Decrease in interest rate

affect its collection of the money but it is failure by the time frame. Therefore, changes in interest rates structure have both positive as well as negative effects on the deposit. In case of saving deposit people feel relaxation when interest rate is increased but when interest rate decreased, there are negative impact toward depositor. The change in interest rate didn't affect on saving deposit amount because of lack of security situation of country existing political instability, conflict thieves and loot. There is lack of investing opportunities in Nepal. So there is high risk to invest into productive sector. Therefore people have lack knowledge about alternatives investment (stock market), so people have been deposited their surplus amount into bank for security purpose even at a very low interest rate.

#### **4.3.2 Interest Rate and Fixed Deposit**

Fixed deposit is the most important deposit for bank because its amount should be invested in different sector by the bank. The fixed deposit interest rate is related to the amount of fixed deposits. At the high fixed deposit rate, many people want to deposit more money in the form of fixed deposits. The table no 4.1.15 shows the structure of fixed deposit interest rates and the amount of fixed deposits of the bank in the study period.

Since there are different years/ categories in fixed deposit interest rates, five year deposit interest rate is taken because of more depositor of bank are interested in five year deposit period.

**Table 4.15**  
**Interest Rate and Fixed Deposit**

**Rs. in 000**

<b>Year</b>	<b>Interest rate per annum</b>	<b>Fixed Deposit</b>
1993/94	9.00	1451931
1994/95	7.50	1748813
1995/96	6.75	3370271
1996/97	6.75	3384011
1997/98	6.75	3659308
1998/99	6.50	3420279
1999/00	6.00	5278274
2000/01	5.50	7667541
2001/02	5.50	2446846
2002/03	5.00	2252545
2003/04	4.00	2310572
2004/05	3.25	2078535
2005/06	3.5	3449094
2006/07	3.5	5435189
2007/08	3.5	8464086

*Sources: Different Annual Reports of Nabil Bank*

The above table shows that the relationship between interest rate and fixed deposited amount. Therefore the interest rate was 9% and amount was Rs 1451931 in 1993/94 and in 1994/95 the interest rate was 7.50% and Rs. 1748813 thousand. And interest rate was decreased to 6.75% but fixed deposit was increased by 20.45%. In 1995/96, 1996/97 and 1997/98 the interest rate was 6.75% and interest rate was decreased by 10% and amount was increased up to Rs 3659308 thousand ie from Rs 1748813 to Rs 3659308, the amount was increased by more than 100% because of three-years time period. Therefore same as saving deposit and interest rate its interest rate the fixed deposit and interest was same process. The interest rate of fixed deposit was decreased to 6.50% in 1998/99 and amount was Rs 3420279 thousand and interest was also decreased to 3.25% in last of the

study period, but amount was decreased also, i.e. Rs 2078535 thousand from 7667541 thousand from 2000/01. We can conclude that from the above analysis the decreases in interest rate affect the decrease in fixed deposited amount.

Therefore, from the above analysis it is know that fixed deposit interest rate was differ in different year. It means sometimes it remains unchanged sometimes it is decreased. The fixed deposited amount was increased up to 2000/01 and it was decreased up to last of the study period because of lack of safety and security condition. The level of increased and decreased percent is not similar because in this period, the financial market becomes more competitive and complex. It is due to the cause's stiff competition among commercial banks. The rate of interest has been changed by this competition so that the amount of fixed deposit affected by the deposit interest rates in small extent but whatever be the fixed deposit interest rates, the amount of fixed deposit seems to be in fluctuating trend. The mobilization of the resources increased the real income of the people and they save more and more money, but they don't invest it. As a result for security, they want to put the money in the form of interest bearing deposit in the banks for a certain period even at very low interest rate. So the fixed deposit amount collected or deposited is fluctuate. But in general, when interest rate of loan and advance is decreased, there will be more demand of loan amount or people are interested to take loan from the bank. In case of raise of interest rate of loan, people are less interested to take loan from the bank. As a result, there is less demand of banks loan. It proves that lower the interest rates higher the credit and higher the interest rates higher the deposited amount.

#### **4.4 Statistical Analysis**

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

- Coefficient of Correlation

➤ Trend Analysis

#### 4.4.1 Coefficient of Correlation

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

##### 4.4.1.1 Correlation Coefficient between Total Deposit and Credit

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

**Table 4.16**

**Correlation Coefficient between Total Deposit and Credit**

Name	r	r <sup>2</sup>	P.Er	6P.Er	Significant/ Not Significant
Nabil Bank	0.94	0.8836	0.03468	0.20801	significance

The calculated value of correlation coefficient between total deposit and total credit is 0.94, therefore there is high degree of positive correlation. The coefficient of determination, r<sup>2</sup> is 0.8836. It indicates that 88.36% of the variation in the dependent variable (total credit) has been explained by the independent variable (total credit). And value of P.Er is 0.03468 and 6P.Er is 0.20801. The value of correlation coefficient 'r' is too greater than the 6 times probable error 6 P.Er. Therefore 'r' is significant.

Therefore it can be concluded that there is significant relationship between total deposit and total credit of Nabil Bank. It also shows that the increasing the deposit, the amount of credit can be also increased.

#### 4.4.1.2 Correlation between Interest Rates and Saving Deposit

Correlation between Interest rates and saving deposit measures the degree of relationship between them. For correlation analysis, interest rate is taken as independent variable (X) whereas saving deposit is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether interest rate is significantly correlated with saving deposit or not. (See Annex.....)

**Table 4.17**  
**Correlation between Interest Rates and Saving Deposit**

<b>Name</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>P.Er</b>	<b>6P.Er</b>	<b>Significant/ Not Significant</b>
Nabil Bank	-0.95	0.9025	0.0282	0.1692	not significance

The calculated value of correlation coefficient between interest rate and saving deposit is -0.95, therefore there is high degree of negative correlation. The coefficient of determination, r<sup>2</sup> is 0.9025. It indicates that 90.25% of the variation in the dependent variable (saving deposit) has been explained by the independent variable (interest rates). And value of P.Er is 0.0282 and 6P.Er is 0.1692. The value of correlation coefficient 'r' is less 6 P.Er. Therefore, it can concluded that the relationship between the two variables, interests rate and saving deposit is not significant or there is no degree of association between interest rates and saving deposit. Therefore it can be concluded that there is not significant relationship between total saving deposit and interest rates of Nabil Bank.

#### 4.4.1.3 Correlation between Interest Rates and Fixed Deposit

Correlation between Interest rates and fixed deposit measures the degree of relationship between them. For correlation analysis, interest rate is taken as independent variable (X) whereas fixed deposit is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether interest rate is significantly correlated with fixed deposit or not. (See Annex.....)

**Table 4.18**

**Correlation between Interest Rates and Fixed Deposit**

Name	r	r <sup>2</sup>	P.Er	6P.Er	Significant/ Not Significant
Nabil Bank	-0.09409	0.00885	0.28645	1.7187	not significance

The above table describes the relationship between interest rate and fixed deposit during the study period from 1993/94 to 2007/08. The calculated value of correlation coefficient between interest rates and fixed is -0.09409, therefore there is negative correlation. The coefficient of determination, r<sup>2</sup> is 0.00885. It indicates that only 0.885% of the variation in the dependent variable (fixed deposit) has been explained by the independent variable (interest rates). And value of P.Er is 0.28645 and 6P.Er is 1.7187. The value of correlation coefficient 'r' is less than the probable error 6 P.Er. Therefore 'r' is not significant. Therefore it can be concluded that there is not significant relationship between interest rates and fixed deposit of Nabil Bank.

#### 4.5 Trend Analysis

From this trend analysis the trend of total deposit and total credit of Nabil bank during the study period. The general tendency of the time series data to increase or decrease or stagnate during a long period of time is called simple trend. The trend ignores sudden or short term fluctuating. The movement may be slow or fast.

Simple linear trend line of the form  $Y = a + bX$  is used.

Where, X and Y are considering variables. Here X denotes time in years, “b” measures the increasing and decreasing rate of Y. Y includes total deposit and total credit. Here, a method of least square is used for the analyses, the trend of deposit and credit of Nabil. It provides basis for obtaining the line of best fit in the series.

#### 4.5.1 Trend Analysis of Total Deposit

In this trend analysis, the fiscal year has been taken in whole ie the 1993/94 change to 1994.and so on up to study period. And amount was taken in the figure of lakhs not in thousand because of vast calculation. The trend value forecasted for next year i.e. 2009. (See Annex.....)

**Table 4.19**  
**Trend Analysis of Total Deposit**

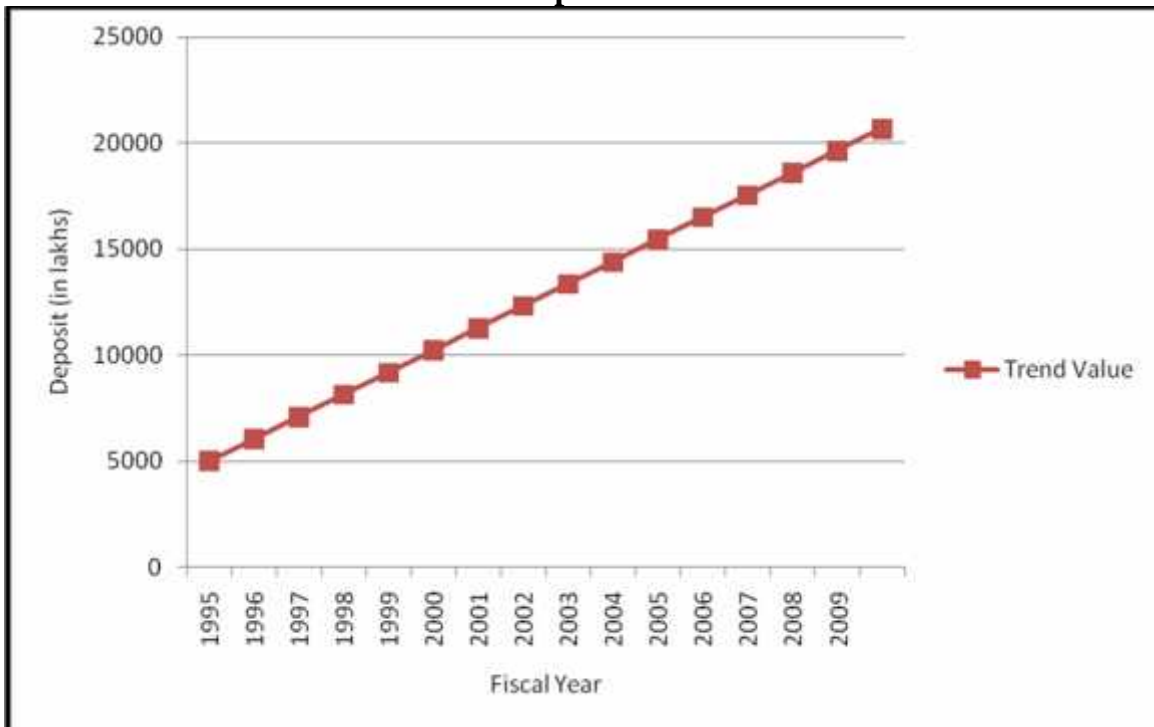
Rs. In Lakhs

Year	Trend Value
1997	5013.38
1998	6057.66
1999	7101.94
2000	8146.22
2001	9190.5
2002	10234.78
2003	11279.06
2004	12323.34
2005	13367.62
2006	14400.9
2007	15456.18
2008	16500.46
2009 (Expected)	17544.74



In this trend analysis the calculated value of 'b' is positive. It is found that the bank's deposit is in increasing trend. If other things remain constant, the total deposit of the bank at 2009 will be Rs 20677.58 lakhs (Expected). The calculated trend value of total deposit of Nabil is fitted in the trend line.

**Trend Value of Total Deposit of Nabil Bank Limited**



#### **4.5.2 Trend Analysis of total credit**

In this trend analysis, the fiscal year has been taken in whole ie the 1993/94 change to 1994.and so on up to study period. And amount was taken in the figure of lakhs not in thousand because of vast calculation. The trend value forecasted for next year i.e. 2006. (See Annex.....)

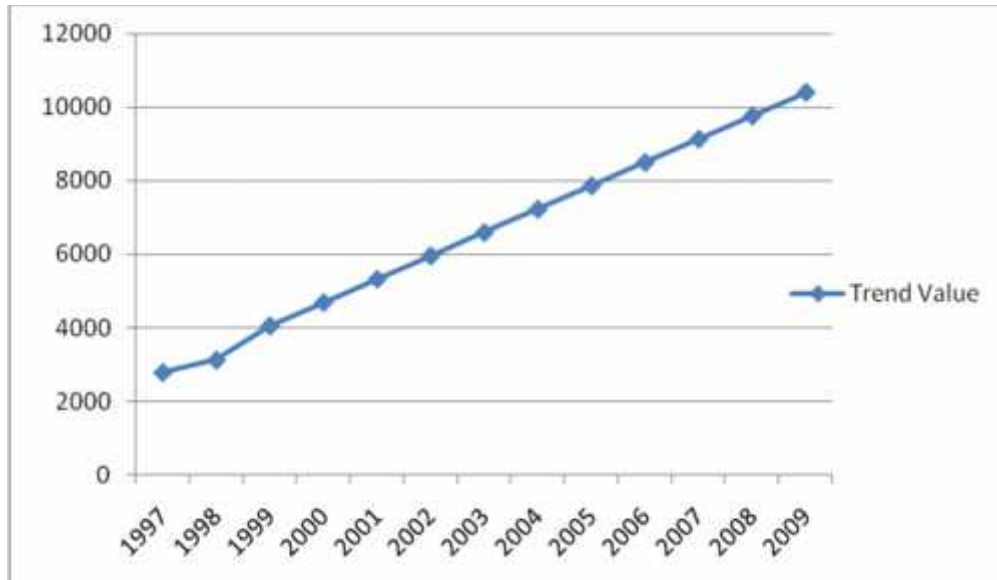
**Table 4.20**  
**Trend Analysis of Total Credit**

Rs. in Lakhs

<b>Year</b>	<b>Trend Value</b>
1997	2774.49
1998	3110.71
1999	4046.83
2000	4682.95
2001	5319.07
2002	5955.19
2003	6591.31
2004	7227.43
2005	7863.55
2006	8499.67
2007	9135.79
2008	9771.91
2009 (Expected)	10408.03

In this trend analysis the calculated value of 'b' is positive. It is found that the bank's credit is in increasing trend. If other things remain constant, the total credit of the bank at 2009 will be Rs 10408.03 lakhs (Expected). The calculated trend value of total credit of Nabil is fitted in the trend line.

**Trend value of Total Credit of Nabil Bank limited**



#### 4.6 Primary Data Analysis

The primary data analysis has been done through the interview and questionnaires basis. The interpretation of the primary data is presented in this section of the study. The analysis has been presented in the point wise form to give the clear idea of the analysis (See Annex ..... For questionnaires)

**Table 4.21**

**Showing Number of Samples Selected under Study**

S.N.	Level	Sample taken	Response	Percent
1	Managers	3	3	100
2	Staffs	20	17	85
3	Clients	30	25	83.3

#### A Management View

##### i) Factor should be considered while making loan and advances decision

In the lending policy the resource availability is most important factors. Resource contributed the investment in project. The qualified and experience promoter will be added in the lending loan and advances. We must keep in mind 3Cs i.e.

character, capacity and Capital of the borrower. Loan and advances are the very risky. Making loan is the principle of the economic function of bank.

The government economic policy, political situation, industrial scenario must be analyzed before lending. Government restrictions like antipollution measures may also be understood. It is essential that money should be used for safe and viable ventures. The features of sound lending policy also to be considered like, safety and security, profitability, liquidity, diversification legality etc

## **ii) Increasing the Idle Deposits or Decreasing the Loan and Advances**

The fund mobilized mainly in loan and advances for short time. Bank doesn't grant loan without collateral. It means banks are concentrated on security minded. This is very much necessary if borrower/ investor could not repay money in time there will be great trouble to collect in time. The bankruptcy is possible. So bank provides loan on security basis rather than project basis.

The corporate sector is not happy with the bank's lending rates at a time of business slackness is observed in the economy. These sectors complain about lending rates of the banks which is more than average rate of return. Lack of investing opportunities existing political instability and conflict very poor security system are also the causes of increasing idle deposit or decreasing loan and advances.

## **1 Reactions of Bank Staffs**

Training must be required for the staffs because it gives the idea for the work. Salaries significantly influences to the employees. They are instrumental in

fulfilling employees needs. Pay serves as a symbol of achievement and a source of recognition. Incentives and rewards also help in working situation and motivate in the work. Motivation includes employees to use their skills and abilities to perform effectively. It is an inner factor that energizes people into action.

## **2. Reactions of Clients**

- i. Accepting deposits from the people is a major function of the commercial banks. People in general, the businessman the industrialists and other individuals deposit money in a bank. Most of people are using saving account to deposit their money in order to earn interest security purposes, who are small scale saver. Only the persons whose financial position is better and wants to gain more interest in fixed deposit. An institutions or an individual who usually needs money daily uses current account for transactions.
- ii. A new depositor faces difficulties to open an account because there are certain criteria fixed by the identification of a new depositor The bank doesn't publish any brochure magazine etc Person who wants to deposit money in the bank first of all need some information about the bank
- iii. Providing loan is another major function of commercial bank. A bank provides loan to a person, company and institutions. It provides loan by accepting the security of debtor. There should be easy procedure in lending process. But the bank's lending process is lengthy. Bank charge more interest rates than rates of return of lending.
- iv. The minimum level of bank balance and amount need to open an account in the bank are very high. So, this bank is far from small depositors. In case of death of depositors, it is very difficult to get back money.

## **4.7 Major Findings**

In this research analysis the deposit and credit position of Nabil Bank for the 15 years period i.e. 1993/94 to 2007/08 has been taken in to consideration. Both primary and secondary data have been used for analysis. Generally financial and statistical tools have been used to reveal the entire position of deposit and credit of the bank. These are the major findings, which are derived from the analysis of Nabil bank with applying twelve data and analysis of primary data also.

#### **4.7.1 Major Findings from Secondary Data**

- ) The analysis reveals that the banks attraction toward saving deposit seems to be satisfactory. But it is not stable increasing in percentage during the study period. It is continuous to increasing in the last of the study period.
- ) The changes in percentage in all deposits are in increasing trend. But last of the study period it is little fluctuate.
- ) The analysis reveals that the banks attraction towards total deposit seems to be satisfactory. Though the percentage changes are not stable, the change in ratio is in average.
- ) In case of percentage change in credit amount, the bank's attraction towards credit amount is satisfactory.

#### **Credit Deposit Ratio (CD Ratio)**

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

### **Growth Ratio**

- ) The growth ratio of total deposit of Nabil by analysis of 15 years period is 13.48%. It means the bank is able to maintain 13.48% growth rate. This ratio measures the capacity of the bank to maintain the percentage of total deposit. Since the growth ratio of total deposit is 13.48%, the bank must improve its deposit collection in high growth ratio.
- ) Similarly the growth ratio of total credit is 17%. So the bank seems in strong condition to increase the total credit than the total deposit growth rate.

### **Interest Rates and Different Deposits and Total Credit**

- ) The interest rates on deposit and credit have been decreased in time. The change in interest causes the change in total amount also.
- ) Saving deposit has been found to be in increasing but interest rate is decreasing year by year. It means there is low impact of the interest on saving deposit.
- ) The fixed deposited amount was in also increasing trend up to 1999/2000 and after that it is in decreasing trend .and interest rates of fixed deposit also in decreasing trend.
- ) In lending condition the interest rates are in decreasing trend but the amount of loan and advances are in increasing trend.

### **Correlation Coefficient**

- ) We can say that the correlation coefficient between total deposit and total credit of Nabil shows the positive relationship between them ie it is 0.94. And  $r^2 = 0.8836$ , it indicates that 88.36% of variation in total credit has been explained by the total deposit. Since "r" is greater than 6PEr, there is significant relationship between deposit and credit.

- ) Correlation coefficient between interest rates and saving deposit, shows the negative relationship i.e. " $r$ " = -0.95. And the coefficient of determination,  $r^2$  = 90.25% of the variation in the saving deposit has been explained by interest rates. The " $r$ " is less than 6P.Er., there is no significant relationship between interest rates and saving deposit.
- ) Correlation coefficient between interest rates and fixed deposit, shows the negative relationship i.e. " $r$ " = -0.09409. And the coefficient of determination,  $r^2$  = 0.885% of the variation in the fixed deposit has been explained by interest rates. The " $r$ " is less than 6P.Er., there is no significant relationship between interest rates and fixed deposit.



### **Trend Analysis and Projection for the Next Year**

- J The total deposit has found in increasing trend. The total deposit of Nabil will be Rs. 17544.74 lakhs in the 2009, if other things remains same.
- J Similarly the credit also found in increasing trend. The amount of total credit will be Rs. 10408.03 lakhs in 2009.if other factors remains the constant.

### **4.7.2 Major Findings from Primary Data Analysis**

- J Bank's deposit collection is satisfactory but due to lack of investing opportunities it is unable to use its funds.
- J Bank considers various possible factors while making lending. Such as: safety and security, profitability, feasibility of project available of resources diversification, legality etc.
- J Lending process is lengthy because it takes longtime to get loan from the bank.
- J Manager generally visits to the investor once a year to get information about the business.This is very helpful to the investors.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

The problem of economic development of a developing country is a problem of real growth. Only considering real factor can't solve this problem, because, nowadays financial and monitoring factors have a tremendous effect on the growth process. For the development of the country's economy, sound and co-ordinate fiscal and monetary policy plays an important role even in underdeveloped country like Nepal. For this, the role of commercial banks becomes crucial in the task of capital formation, which is, no doubt, a key variable in the economic development of a country. Scattered resources hold no meaning unless and until they are mobilize and utilize efficiently in some productive sectors.

Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investments in order to aid industry, trade, commerce, agriculture and other sectors for the economic development of a nation. It should not be forgotten that a country could hardly achieve its goal of economic development with a strong capital base. Commercial banks play a pivotal role in performing such base for financial and economic development by way of deposit mobilization. Deposits are the obligation of the commercial banks. So commercial banks must allocate the funds in different loan and advances and investment. Here proper efficiency in mobilizing the deposits has to be maintained. So the purpose of this study is to know the efficient utilization of the accumulated deposits.

Besides this, the objective is to see the impact of interest rates on amount of deposits collected and amount of loan granted by commercial banks specially Nabil Bank. According to the banks financial reports of Nabil the total deposit is Rs.14586609 thousand which included Rs.5481740 thousand of current deposits and Rs. 026334 thousand of saving deposits and Rs.2078525 thousand of fixed deposits up to mid July 2006 . Interest in the deposits paid according to year and category of deposits. No interest will be pay in current account. In saving deposit the interest rate is 2 percent and similarly in fixed deposit the interest rate is 3.25 percent will be paid according to the duration of the deposits.

The credit of the commercial banks depends upon the deposit position of the banks. Commercial banks in Nepal used to utilize their deposit in two ways (a) Loan and advance and (b) Investments. In mid July 2006 the total deposit of Nabil was Rs 10586970 thousand. The ratio between deposit and credits i.e. CD ratio has increased overall. In mid July 2006 the CD ratio was 72.60%.

In this study, it is found that the correlation between total deposit and total credit is 0.94, which shows the degree of association between the two is very high, here "r" is greater than P.Er.it means that the relationship between total deposit and total credit is significant. The increasing trend of deposit collection is accompanied by incensement in utilization also. More than 50% of the resources are found to be utilized and leaving other 50% remaining idle. Yet it go hand in hand with developmental activities of the country, the bank more to utilize even better and with proper a locative scheme.

The correlation between two variables shows that there is negative correlation between interest rate and deposit collection both in fixed and saving deposits. In both case "r" is less than PEr. It indicates that the correlation between interest and

fixed/ saving deposit is not significant. Although the interest is lowered the deposit collection is high but the fact is something different. When liberalization was introduced in Nepal as a means of development of the country many joint venture banks and financial institutions began to work. With the establishment of new banks and financial institutions, people got opportunity to keep their savings in these institutions. Saving was now safe with banks than in home from security point of view also. Irrespective of the rate of interest, deposit collection seemed to increase. Therefore the correlation coefficient between the interest rate and fixed saving deposit is negative. Here the hypothesis is rejected.

Besides this, in credit sector also there is negative correlation between interest rate and credit granted. It shows that if interest rate is decreased, the more amount of credit can be issued. Here  $r$  is less than  $P_{Er}$ . It means the relation between interest rate and credit is not significant theoretically but in economics the relation between the two i.e. interest rate and credit is said to be significant because it proves the general law that lower the interest rate, higher amount of credit granted and higher the interest rate the less amount of credit will be granted.

Analyzing the above data, we can say that Fixed Deposit occupies major portion of banking income. It also plays a vital role in upgrading the national economy.

So, it can be inferred from the analysis of data are as follows:

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

4. Better fixed deposit means maximum availability of capital reducing the cost of capital
5. Indirect benefit in creation of better employment opportunity
6. Proper fixed deposit policy controls the money demand and supply market ultimately stabilizing the economy activity
7. Enhance the economy growth of the national
8. Maintaining the fixed deposit scheme (policy) of bank helps in controlling inflation and deflation.

## **5.2 Conclusion**

It can be concluded from the observance and analysis of above data the commercial bank should move as per the direction given by the central bank. Bank should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial banks to live in the industry. Higher the deposit higher will be the chance of the mobilization of working fund and profit there to. Bank should invest in different sector very carefully, while advancing loan because loan is the blood of commercial banks for survival. If commercial banks do not apply sound investment policy it will be in great trouble in future to collect it in time. Hence the possibility of bankruptcy there too. Bank should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations, there is high chance of default risk. Diversifications are indeed need to all the business houses but it has seen immense importance to commercial banks. Diversification of investment is very much important to commercial bank than other business houses because banks use the money to other people for the benefit of its own. And lastly is can be said that banks are important for the nation. It helps in the capital formation to the nations, which is the most important element for the economic growth of the country.

Capital helps to solve the various problems arising in the country. And fixed deposit controls the measure economic activity of the nation. Therefore, it is very important for the policymakers to adopt appropriate policy with calculated interest rate so that large capital can be mustered at very low capital cost encouraging the industrial and commercial activity eventually leading to better economic growth, socio-economic development, employment opportunity, etc. In overall it can be concluded that the role of NRB in Deposit Mobilization of commercial banks has positive impact and Nabil bank also helps in this process for countries growth.

### **5.3 Recommendations**

Through the analysis from the above study, a few recommendations are referred below, which if implemented, may help further to Nabil Bank Limited.

1. Nowadays, in the competitive banking industry, the Bank should attract more depositors by providing improved and new services and facilities.
2. In order to serve the customer smoothly and swiftly, the bank should avoid manual techniques and adopt office automation.
3. Ethics of staff impresses the customers and create interest to improve the performance of the company. Hence, full co-peration from staff must be obtained. Customers' satisfactions are affected by the services provided by the Bank, which will effect the collection of deposits. The bank should also provide the training programmed to the employees for the professional development.
4. Interest rate structure should be carried out and an appropriate interest rate policy should be formulated so as to attract more savings of the general public.

5. The Bank should find out new areas/sectors for investing collected deposits from which it can generate maximum profit. In context of present scenario of the country, health and education can be considered as the best sector for investment, which are more secure and can generate a reasonable profit.
6. Since the national economy is approaching towards recession period, all the financial institutions should work towards improving the economic development of the country. The financial institutes should encourage internal business, industries and export rather than imports, so as to reduce the outflow of currencies.
7. For the upgrading in the financial health of the banks, the ratio of bad loan has to be minimized substantially other wise it has to keep huge amount in loan loss provision.
8. The bank has to create the conducive environment for the revival of sick investment and has to analyze the necessity of Mobilizing additional resource to revive the overall banking sector.
9. The fee based activities of bank are found very to be very popular and also has become important in banking sector. These are commission discount and fees, so the bank has increase the off balance sheet transaction to increase the Profit.
10. Nepal is full of poor people where there is less saving. Considering it Nabil should target their business segment in the middle family . For this they have to keep the affordable minimum balance to open the account, which will help to expand customer and deposit amount.
11. The liberal policy of NRB to establish new financial institution and bank, branch is challenging to the profit the banks which also promoting unhealthy competition. So Nabil is suggested to make a fair competition in the market

and should adopt the policy to live and let to live others which make them to compel to think the optimum policy in turn.

12. At the end, the Nabil Bank is suggested to support the social welfare event to promote the business.
13. Proper evaluation of the performance of the staffs should be done in timely and continuously in order to increase the efficiency of the bank. For this, it is recommended that the job analysis should be done to define out the job skill, knowledge, abilities etc. of staffs.
14. There should be attractive publicity of the bank in such a way that people will have knowledge of the bank and it encourages them to save the money. When there is more publicity, people may have great desire to save money in order to earn interest and use the bank to lend money instead of money lenders. The bank should also pay attention to publish bulletin, brochures and others so as to make people familiarize with its performance and activities.



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## ANNEXURE

### Correlation Coefficient

#### 1 Correlation Coefficient between Total Deposit and Total Credit

X= deposit, Y=  
Credit

X	x =X-X	X <sup>2</sup>	Y	y = Y-Y	y <sup>2</sup>	xy
4408	-6348	40297104	2388	-3885	15093225	24661980
5354	-5402	29181604	3420	-2853	8139609	15411906
7089	-3667	13446889	4316	-1957	3829849	7176319
7752	-3004	9024016	4636	-1637	2679769	4917548
8738	-2018	4072324	5224	-1049	1100401	2116882
9464	-1292	1669264	5789	-484	234256	625328
12779	2023	4092529	7211	938	879844	1897574
15839	5083	25836889	8324	2051	4206601	10425233
15506	4750	22562500	7438	1165	1357225	5533750
13448	2692	7246864	7756	1483	2199289	3992236
14119	3363	11309769	8190	1917	3674889	6446871
14587	3831	14676561	10587	4314	18610596	16526934
∑X = 129074		∑x <sup>2</sup> = 183416313	∑Y = 75279		∑y <sup>2</sup> = 62005553	∑xy = 99732561

N =12

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

## 2 Correlation Coefficient between Interest Rates and Saving Deposit

Interest	Saving deposit					
X	$x = X - \bar{X}$	$x^2$	Y	$y = Y - \bar{Y}$	$y^2$	xy
5	1.5	2.25	1234	-2494.25	6221283.1	-3741.375
5	1.5	2.25	1589	-2139.25	4576390.6	-3208.875
4.5	1	1	1794	-1934.25	3741323.1	-1934.25
4.25	0.75	0.5625	1943	-1785.25	3187117.6	-1338.9375
3.5	0	0	2547	-1181.25	1395351.6	0
3.5	0	0	3353	-375.25	140812.56	0
3.5	0	0	4150	421.75	177873.06	0
3.25	-0.25	0.0625	4917	1188.75	1413126.6	-297.1875
3	-0.5	0.25	4972	1243.75	1546914.1	-621.875
2.5	-1	1	5220	1491.75	2225318.1	-1491.75
2	-1.5	2.25	5994	2265.75	5133623.1	-3398.625
2	-1.5	2.25	7026	3297.75	10875155	-4946.625
$\phi X =$ 42		$\phi x^2 = 11.875$	$\phi Y =$ 44739		$\phi y^2 =$ 40634288	$\phi xy = -20979.5$

### 3 Correlation Coefficient between Interest Rates and Fixed Deposit

Interest	Fixed deposit					
X	$x = X - \bar{X}$	$x^2$	Y	$y = Y - \bar{Y}$	$y^2$	xy
9	2.958	8.749764	1452	-1803.75	3253514.1	-5335.4925
7.5	1.458	2.125764	1749	-1506.75	2270295.6	-2196.8415
6.75	0.708	0.501264	3370	114.25	13053.063	80.889
6.75	0.708	0.501264	3384	128.25	16448.063	90.801
6.75	0.708	0.501264	3659	403.25	162610.56	285.501
6.5	0.458	0.209764	3420	164.25	26978.063	75.2265
6	-0.042	0.001764	5278	2022.25	4089495.1	-84.9345
5.5	-0.542	0.293764	7667	4411.25	19459127	-2390.8975
5.5	-0.542	0.293764	2447	-808.75	654076.56	438.3425
5	-1.042	1.085764	2253	-1002.75	1005507.6	1044.8655
4	-2.042	4.169764	2311	-944.75	892552.56	1929.1795
3.25	-2.792	7.795264	2079	-1176.75	1384740.6	3285.486
$\phi X =$ 72.5		$\phi x^2 =$ 26.229168	$\phi Y =$ 39069		$\phi y^2 =$ 33228398	$\phi xy = -$ 2777.875

## Growth Rates Analysis

### Growth Rates Analysis of Total Deposit

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

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

Where,  $D_n$  = Total amount of n th year ie in 2007/08 = 25908420

$D_o$  = Total amount of initial year ie in 1993/94 = 4407636

$g$  = growth rate of amount = ?

$n$  = Total no of years during the study period. = 15 Years

So that

$$25908420 = 4407636(1+g)^{15-1}$$

$$(1+g)^{14} = \frac{25908420}{4407636}$$

$$1+g = (5.87808)^{1/14}$$

$$g = (5.87808)^{1/14} - 1$$

$$g = 13.48 \%$$

### 5 Growth Rates Analysis Total Credit

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

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

Where,  $D_n$  = Total amount of n th year ie in 2007/08 = 21365053

$D_o$  = Total amount of initial year ie in 1993/94 = 2388250

$g$  = growth rate of amount = ?

$n$  = Total no of years during the study period = 15 Years

So that

$$21365053 = 2388250(1+g)^{15-1}$$

$$(1+g)^{14} = \frac{21365053}{2388250}$$



$$1+g = (8.9459)^{1/14}$$

$$g = 1.17 - 1$$

$$g = 17\%$$

### 6 Trend Analysis of Total Deposit

Rs in Lakhs

Year	Total deposit				
X	y	x=(X-2002)	X <sup>2</sup>	xY	Y <sub>c</sub> = 10234.78+1044.28 ×X
1997	4408	-5	25	-22040	= 10234.78+1044.28 × (-5) = 5013.38
1998	5354	-4	16	-21416	= 10234.78+1044.28 × (-4) = 6057.66
1999	7089	-3	9	-21267	= 10234.78+1044.28 × (-3) = 7101.94
2000	7752	-2	4	-15504	= 10234.78+1044.28 × (-2) = 8146.22
2001	8738	-1	1	-8738	= 10234.78+1044.28 × (-1) = 9190.50
2002	9464	0	0	0	= 10234.78+1044.28 × (0) = 10234.78
2003	12779	1	1	12779	=10234.78+1044.28 × (1) = 11279.06
2004	15839	2	4	31678	= 10234.78+1044.28 × (2) = 12323.34
2005	15506	3	9	46518	= 10234.78+1044.28 × (3) = 13367.62
2006	13448	4	16	53792	= 10234.78+1044.28 × (4) = 14411.9
2007	14119	5	25	70595	= 10234.78+1044.28 × (5) = 15456.18
2008	14587	6	36	87522	= 10234.78+1044.28 × (6) = 16500.46
2009	Expected Value				= 10234.78+1044.28 × (7) = 17544.74
	∑y=129083	∑X=6	∑X <sup>2</sup> =46	∑XY=203919	

The trend equation is  $Y_c = a + bX$  and  $N = 12$

As  $\sum X = 0$ , the value of 'a' and 'b' will be found out by solving the two normal equations.

$$\sum Y = Na + b\sum X \dots\dots\dots i$$

$$\sum XY = a\sum X + b\sum X^2 \dots\dots\dots i$$

Now substituting the value, we get

$$129083 = 12a + 6b \dots\dots\dots \text{iii}$$

$$213874 = 6a + 146b \dots\dots\dots \text{iv}$$

Let us multiply equation (iv) by 2 and subtract from (iii) we get,

$$\begin{aligned} 129083 &= 12a + 6b \\ -427748 &= -12a + -292b \\ \hline -298665 &= -286b \end{aligned}$$

$$b = 1044.28$$

The value of 'b' is putting in ii than

$$129083 = 12a + 6 | 1044.28$$

$$12a = 129083 - 6265.86$$

$$12a = 122817.14$$

$$a = 10234.78$$

Thus the trend equation will be

$$Y_c = 10234.78 + 1044.28 | X$$

Different values and expected value are given in table

## 7 Trend analysis of total credit

Rs in Lakhs

Year	Total credit				Trend value $Y_c = a + bX$
x	y	$X = (x - 2002)$	$X^2$	XY	$Y_c = 5955.19 + 636.12X$
1997	2388	-5	25	-11940	$= 5955.19 + 636.12 \times (-5) = 2774.59$
1998	3420	-4	16	-13680	$= 5955.19 + 636.12 \times (-4) = 3410.71$
1999	4316	-3	9	-12948	$= 5955.19 + 636.12 \times (-3) = 4046.83$
2000	4636	-2	4	-9272	$= 5955.19 + 636.12 \times (-2) = 4682.95$
2001	5224	-1	1	-5224	$= 5955.19 + 636.12 \times (-1) = 5319.07$
2002	5789	0	0	0	$= 5955.19 + 636.12 \times 0 = 5955.19$
2003	7211	1	1	7211	$= 5955.19 + 636.12 \times 1 = 6591.31$
2004	8324	2	4	16648	$= 5955.19 + 636.12 \times 2 = 7227.43$
2005	7438	3	9	22314	$= 5955.19 + 636.12 \times 3 = 7863.55$
2006	7756	4	16	31024	$= 5955.19 + 636.12 \times 4 = 8499.67$
2007	8190	5	25	40950	$= 5955.19 + 636.12 \times 5 = 9135.79$
2008	10587	6	36	63522	$= 5955.19 + 636.12 \times 6 = 9771.91$
2009	Expected Value				$= 5955.19 + 636.12 \times 7 = 10408.03$
	$\sum y = 75279$	$\sum X = 6$	$\sum X^2 = 146$	$\sum XY = 128605$	

The trend equation is  $Y_c = a + bX$  and  $N = 12$

As  $\sum X \neq 0$ , the value of 'a' and 'b' will be found out by solving the two normal equations on least square method then.

$$\sum Y = Na + b\sum X \dots\dots\dots i$$

$$\sum XY = a\sum X + b\sum X^2 \dots\dots\dots ii$$

Now substituting the value, we get

$$75279 = 12a + 6b \dots\dots\dots iii$$

$$128605 = 6a + 146b \dots\dots\dots iv$$

Let us multiply equation (iv) by 2 and subtract from (iii) we get,

$$75279 = 12a + 6b$$

$$-257210 = -12a - 292b$$

$$-181931 = -286b$$

$$b = 636.12$$

The value of 'b' is putting in ii than

$$75279 = 12a + 6 \mid 636.12$$

$$12a = 75279 - 3816.72$$

$$12a = 71462.28$$

$$a = 5955.19$$

Thus the trend equation will be

$$Y_c = 5955.19 + 636.12 \mid X$$

Different values and expected value are given in table

# QUESTIONNAIRE

## Sample Question for Primary Data Collection

Dear sir/ Madam

I am a student of Shanker Dev Campus of the Master Degree Level. As per the requirement of the Tribhuvan University. I am writing a thesis entitled to Mobilization of Deposit and Investment of Nabil Bank. You are kindly requested to help me by filling up the following questions. Your honest response will go a long way in my research and I promise to keep your response confidential and will be used for the academic purpose.

- 1) How far the directives relating to deprive sector lending is detrimental to the profit of your bank?
  - a) very much
  - b) not so much
  - c) not at all
  
- 2) NRB has made the rule that Commercial Bank must have a provision of 12% of their total outstanding to the priority sector. How do you analyze it?
  - a) it enhance the image of the bank
  - b) it contribute to the profit too
  - c) it reduce the profitability of the bank
  - d) it does not effect the bank
  
- 3) What role does single borrower limit play in determining the Credit exposure of the bank?
  - a) it increase credit exposure
  - b) it helps decrease credit exposure

- c) is not concern at all
- 4) What role does Capital adequacy play in the bank?
- a) it safe guards of depositors money
  - b) it enhance the financial strength in the bank
  - c) it enhance the borrowing capacity of the bank
  - d) it protect the bank from bankruptcy
  - e) all of the above
- 5) Which sector of priority is given due priority by you, bank for the development of the nation and growth of your banks as well?
- a) agriculture
  - b) home loan and other
  - c) cottage and small industry
  - d) other
- 6) 40% of the total credit must be invested in the productive sector as per the rule of NRB. What do you think about this direction?
- a) it is good only the view point of the nation
  - b) it is good for commercial banks too for its future growth
  - c) it should reduce the percentage of the bank
- 7) What do you think about the capital adequacy ratio set by the NRB?
- a) they are the more than the requirement
  - b) they are the less then the requirement
  - c) they are ok
- 8) Interest spread must not exceed more than 5%. What do you think about this rule?
- a) it is fine
  - b) it is too low
  - c) it is high

- d) what can we do?
- 9) How do you think will be the bank cope with the problem brought about the amendment of the loan classification and provisioning directive brought about NRB? How do you tackle with this problem?
- a) will control the credit disbursal by being more strength
  - b) will strengthen the monitoring and follow up procedure
  - c) will do nothing
- 10) What do you think about the loan loss classification and provisioning role of NRB? please give your view?

## Analysis of Primary Data

### Result from bank staffs

Question No.	Options	Total Response	Result
1	a. very much	5/20	25%
	b. not so much	10/20	50%
	c. not at all	5/20	25%
2	a) it enhance the image of the bank	15/20	75%
	b) it contribute to the profit too	1/20	5%
	c) it reduce the profitability of the bank	3/20	15%
	d) it does not effect the bank	1/20	5%
3	a) it increase credit exposure	6/20	30%
	b) it helps decrease credit exposure	9/20	45%
	c) it is not concern at all	5/20	25%
4	a) it safe guards of depositors money	9/20	45%
	b) it enhance the financial strength in the bank	2/20	10%
		3/20	15%
	c) it enhance the borrowing capacity of the bank	5/20	25%
		1/20	5%
	d) it protect the bank from bankruptcy		
	e) all of the above		
5	a) agriculture	5/20	25%
	b) home loan and other	3/20	15%
	c) cottage and small industry	11/20	55%
	d) other	1/20	5%



6	<p>a) it is good only the view point of the nation</p> <p>b) it is good for commercial banks too for its future growth</p> <p>c) it should reduce the percentage of the bank</p>	<p>2/20</p> <p>14/20</p> <p>4/20</p>	<p>10%</p> <p>70%</p> <p>20%</p>
7	<p>a) they are the more than the requirement</p> <p>b) they are the less then the requirement</p> <p>c) they are ok</p>	<p>1/20</p> <p>2/20</p> <p>17/20</p>	<p>5%</p> <p>10%</p> <p>85%</p>
8	<p>a) it is fine</p> <p>b) it is too low</p> <p>c) it is high</p> <p>d) what can we do?</p>	<p>19/20</p> <p>0</p> <p>0</p> <p>1/20</p>	<p>95%</p> <p></p> <p></p> <p>5%</p>
9	<p>a) will control the credit disbursal by being more strength</p> <p>b) will strenghen the monitoring and follow up procedure</p> <p>c) will do nothing</p>	<p>3/20</p> <p>16/20</p> <p>1/20</p>	<p>15%</p> <p>80%</p> <p>5%</p>

### **Brief Profile of Nabil Bank**

Nepal Arab Bank Limited (Nabil), Nepal's first joint venture bank commenced to operate on July 12, 1984 (2041 B.S.) enthusiastically under the company act 2021 to compete in banking sector. Its establishment may be considered as the challenge to the laxity in banking sectors. It also established by the concept of market strategic. So it launched its transactions thinking "Customers are the king in the market", new technology in banking sector was improved by this bank. Nabil has been established because of liberal financial policy of government to allow banks with foreign collaborations to operate in Nepal. In order to activate commercial banking service in the country and there by stimulate trade and industry sector. Nabil is fulfilling government of Nepal's desire by increasing inflow of foreign capitals, developing an indigenous cadre of skilled financial managers and importing modern technology. it has become the father of other joint venture banks, which learnt, a lot about how to get the success using proper management system. So that other banks were established after establishment of Nabil Bank.

Emirate Bank Ltd (EBL) , 50% equity holder of Nabil, which is fully owned by government of United Arab Emirates, was responsible for the management of the operation of Nabil, as well as for establishing branches instituting modern banking system and training young Nepalese nations. For these purposes had seconded professional to manage Nabil. But in 1995 A.D. with approval of central bank of Nepal and Bangladesh, the ownership of 50% equity share were sold to National bank ltd of Dhaka by EBL. At present 50% equity share have been handed by NB International Ltd. Which is situated in Ireland. NB International bank ltd is an off shoe finance co. of National bank of Dhaka.

## Capital Structure of Nabil Bank Ltd.

Authorized Capital	Rs. 500 millions
Issued Equity Capital	Rs. 491.65 millions
Paid up Equity Capital	Rs. 491.65 millions

### Shareholding patterns:

1. National Bank Limited Bangladesh	50%
2. NIDC	10%
3. Rastriya Beema Sansthan	9.66%
4. Nepal Stock Exchange	0.34%
5. General Public	30%

Nabil has 26 branches and two money exchange counters. Money exchange counters are located at Tribhuvan International Airport and Thamel. Out of 26 some branches are out of kathmandu valley and some are here. Nabil also provide credit card system, master card system, debit card system and ATM to the public in different sector and online money transactions. Therefore Nabil provides many facilities for the person who deposited their money in Nabil and loan takes from Nabil. Almost 350 employees have been working in Nabil. The chairman and managing directors of EBL are the directors of National Bank International Ltd. They are also director of Nabil.

The following activities and services are provided by Nabil including normal function also.

- ) Tele Banking
- ) Credit card facilities

- ) SWIFT
- ) Deposit Locker
- ) Western Union Money Transfer
- ) International Trade and bank guarantee
- ) Different loan facilities likes, home loan, education loan and car loan etc.