

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the study

One of the major functions of banks is to accept deposits and grant loans and advances. Deposits and loans are like life and blood to any commercial banks, without proper amount of deposit and without proper mobilization of it commercial banks cannot survive.

Any individual or firms can utilize their excess money after consumption in different ways. They can either buy commodities like precious metals or land and buildings or can invest in shares and debentures or can deposit it the commercial banks or can simply put the money in lockers. Among the above alternatives depositing money in banks is the medium of safeguarding the money with stable regular return.

Hence deposits of commercial banks are the money deposited by the individuals and firms in the hope of earning certain stable return and in the meantime safeguarding their money or simply for sake of making business transactions easy in case of business entity .therefore the term deposits for any commercial banks is the total of the money deposited in different forms of accounts. Deposits are the source for any commercial banks as the bank operates by collecting deposits and mobilizing it.

Collecting deposits is one of the major parts, but the banks have to mobilize the deposits i.e. the fund has to be distributed in the form of loans and advances to earn something

from it. Deposit mobilization is another important function of commercial banks. Deposit mobilization is the opposite of deposit collection here the funds are distributed to the deficit units of the economy who need the funds for various purposes at certain rate of interest. Deposit mobilization is very important because the loans should be distributed in a very efficient way. The bank should be able to earn enough amount of profit from deposit mobilization to support its cost and similarly the banks should be able to recover the full amount of loan after the maturity period.

## **1.2 Concept of Commercial Bank**

A bank is an institution established by law, which deals with money and credit. Bank is an institution which primarily accepts deposits from customers providing certain rate of interest and grants loans to the needy by charging certain rate of interest. Besides this modern banking performs other functions as well, which include remittance, issuing letter of credit, issuing guarantee, agency function and other services.

The concept of bank can be made clear from the following definitions also:

According to G. Crowther,

“A bank is an institution which collects money from those who have it spare and who are saving it out of their income and lends this out to those who require.”

According to Nepal Commercial Bank Act 2031 B.S,

“A commercial Bank refers to such type of bank which deals in money exchange, accepting, advancing loans and commercial transactions except specific banking related to cooperatives, agriculture and industry and other objectives.”

Therefore a bank can be defined as a financial departmental store which renders a host of financial services besides taking deposits and giving loans.

### **1.2.1 Historical Development of Banks**

The modern banking system has not evolved at once, it has passed through several stages before reaching the present stage. Crowther has described merchants, goldsmiths and money lenders as ancestors of modern banking:

The Merchants had to remit money from one place to another. It was difficult to carry physical money, so they used letters for trading and these gave birth to negotiable instruments.

The goldsmiths used to have safe to valuables. They used to take deposits in the form of money and ornaments and charge commission. They issued receipt to the depositor which gave birth to bank notes.

Money lenders used to give loan to the needy public out of their own treasury.

As all the money deposited were not withdrawn at the same time, goldsmiths and money lenders started to offer interest on deposits and started to utilizing funds in the form of loans to the needy people, while maintaining certain fraction of deposit with them.

In the history of modern banking we cannot forget the bank of Casa De San Giorgio in Genoa established in 1148, Bank of Venice set up in 1157 in Italy which is regarded as first modern bank. Subsequently Bank of Barcelona (1401), Bank of Amsterdam(1601) in Holland and Bank of Hamburg(1610) in Germany was established. The bank of England was established in 1694 but the growth of banks accelerated only after the introduction of Banking Act 1833 in U.K.

### **1.2.2 Development of commercial banks in Nepal**

Nepal's unorganized banking system existed with the existence of money lenders, shahuji, goldsmiths etc. Historically we find the evidence King Gunakama Dev borrowed money to rebuild Kathmandu city in the beginning of the eight century. At the end of the same century a merchant named Shakhadhar introduced '**Nepal Sambat**' after freeing all the people of Kathmandu from the debt. Similarly different types of coins made from different types of metals were used by different Malla kings at different interval of time. King Jayasthiti Malla of Kantipur classified the people in 64 classes among one of them was '**Tankadhari**', who were the people involved in monetary transactions. After the unification of the country by king Prithivi Narayan Shah, an institution named '**Taksar**' was established to issue coins in scientific manner. During the reign of Ranodip Singh an office named '**Tejarath Adda**' was established in 1933 B.S whose main function was to provide loans to government employees and public against deposit of gold and silver.

The organized banking sector started in Nepal with the establishment of 'Nepal Bank Limited' as first commercial bank in 30 Kartik 1994 B.S under Nepal Bank Act 1994 B.S. The banking sector of Nepal gained momentum with the establishment of central bank, 'Nepal Rastra Bank' in 14 Baishak 2013 B.S under Nepal Rastra Bank Act 2012 B.S. To overcome the limitations of Nepal Rastra Bank, 'Nepal Banijya Bank' was established on 10 Magh 2022 B.S to perform all function of commercial bank. Similarly 'Agriculture Development Bank' was established on 7 Magh 2024 B.S to boost the agriculture sector.

The major turning points in the Nepalese banking sector came with the permission by government of Nepal to open joint venture banks in Nepal. Nepal Arab Bank Limited

(renamed as Nabil Bank Limited) was the first joint venture bank established on 29 Jestha 2041 B.S. With the satisfactory result of joint-venture banks, Nepalese promoters are highly encouraged and as a result, commercial banks are introduced with cent percent domestic investment. At present Nepal Industrial & Commercial Bank Limited (NIC Bank), Lumbini Bank Limited, Machhapuchhre Bank Limited, Kumari Bank Limited, Laxmi Bank Limited and Siddhartha Bank Limited came into operation with cent percent domestic investment by Nepalese promoters which is the plus point of development of banking history of Nepal.

Nepal Rastra Bank has given approval to operate twenty five commercial banks. Those banks are:

**Table no: 1**

**List of Commercial Banks in Nepal**

<b>Name of Banks</b>	<b>Operation Date(AD)</b>	<b>Paid Up Capital (Rs. In Million)</b>
1. Nepal Bank Limited	1937/11/15	380.4
2. Rastriya Banijya Bank	1966/01/23	1172.3
3. Agricultural Development Bank Limited	1968/01/02	9278.0
4. NABIL Bank Limited	1984/07/16	689.2
5. Nepal Investment Bank Limited	1986/02/27	1002.6
6. Standard Chartered Bank Nepal Limited	1987/01/30	620.8
7. Himalayan Bank Limited	1993/01/18	810.8
8. Nepal SBI Bank Limited	1993/07/07	647.8
9. Nepal Bangladesh Bank Limited	1993/06/05	744.1
10. Everest Bank Limited	1994/10/18	831.4
11. Bank of Kathmandu Limited	1995/03/12	603.1
12. Nepal Credit and Commerce Bank Limited	1996/10/14	1195.7
13. Lumbini Bank Limited	1998/07/17	750.0

<b>Name of Banks</b>	<b>Operation Date(AD)</b>	<b>Paid Up Capital (Rs. In Million)</b>
14. Nepal Industrial and Commercial Bank Limited	1998/07/21	792.0
15. Machhapuchhre Bank Limited	2000/10/03	821.7
16. Kumari Bank Limited	2001/04/03	900.0
17. Laxmi Bank Limited	2002/04/03	732.0
18. Siddhartha Bank Limited	2002/12/24	690.0
19. Global Bank Limited	2007/01/02	700.0
20. Citizens Bank International Limited	2007/06/21	560.0
21. Prime Bank Limited	2007/09/24	700.0
22. Sunrise Bank Limited	2007/10/12	700.0
23. Bank of Asia Nepal Limited	2007/10/12	700.0
24. Development Credit Bank Ltd	2001/01/23	301.00
25. NMB Bank Ltd	1996/11/23	1000.00

([www.nrb.org.np](http://www.nrb.org.np))

### **1.2.3 Functions of commercial banks**

Generally, all commercial banks perform following functions:

#### **a. Accepting deposits:**

The main objective of the commercial bank is to collect the deposit. Commercial banks accept the deposit from the public who has surplus funds. Therefore, accepting deposit by banks is the oldest function. A bank accepts deposits in the form of saving, current and fixed deposit.

#### **b. Advancing loans:**

The second major function of commercial bank is providing loan to the needy person. Bank advances the loan against the security to the customer. Advancing loan is also the form deposit mobilization because bank gives loan to the people from the deposit that it collects from the public. There are various methods of advancing loans, e.g. overdraft, cash credit, direct loans, discounting bills of exchange, etc.

**c. Agency services:**

Agency services are those services, which are provided by the banks on benefit of its customer. A commercial Bank undertakes the payment of subscription, insurance premium, rent, etc and collection of cheques, bills, salaries, pensions, dividends, interest, etc on behalf of the customer. The bank charges the service cost to do these functions to its customers. The commercial banks also arrange the remit money from one place to another by means of cheques, drafts, wire transfer, etc.

**d. Credit creations:**

Credit creation is one of the most important functions of the commercial banks. In order to earn profits, they accept deposits and advance loans by keeping a small cash reserve ratio for day-to-day transaction as prescribed by the central bank. When a bank advances a loan, it opens an account to draw money by cheque according to his need, by granting a loan, the banks create credit or deposit.

**e. Remittance**

Remittance is one of the important functions of commercial bank in the present banking sector. As major portion of money comes from the workers abroad and commercial banks provides channel for sending money from abroad to the country and to foreign country as well.

**f. Issuance of Letter of Credit**

Commercial banks issues Letter of Credit in favor of importers and exporters which facilitates in the international trade. The credit is also issued in the local trade also.

### **g. Issuance of Guarantee**

Commercial bank issues guarantee which is an irrevocable undertaking by a bank on behalf of customers to make payments to beneficiary in case of default by customer. This is a guarantee of financial compensation caused by customer's non performance.

### **h. Other functions**

Besides above the commercial banks perform other function to its customer. Some of them are as follows:

- ) Safe keeping of valuables at lockers
- ) Assist in foreign trade
- ) Making venture capital loan
- ) Investment banking and merchant banking
- ) Security brokerage service

## **1.2.4 Role of Commercial Banks**

Commercial banks are one of the important institution in the economic sector in the present context. The role of commercial banks is very wide in the present context. Some of the role that a commercial bank play in the modern economy are listed as follows:

### **a. Helps in the economic development of the country**

Commercial banks mobilize the much required fund in the economy. The commercial banks collect funds from savers and provide it to the needy. Thus it provides capital required for all the development activities.



### **b. Commercial banks helps in regional development**

commercial banks helps in regional development as well. In the context of expanding the businesses commercial banks opens its branches in different parts of the country, which helps in the development of the regional development.

### **c. Helps in development of foreign trade**

Commercials banks help to develop foreign trade. It issues letter of credit and plays a role of guarantor in international trade. Commercial bank also provides different modes of payment like demand draft, telegraphic transfer etc.

## **1.3 Profile of sample banks**

For the study purpose, studying all the commercial banks is not feasible, so two commercial banks having Nepalese promoters have been selected for comparative analysis.

### **A. Kumari Bank Limited (KBL)**

Kumari Bank Limited (KBL) came into existence as the fifteenth commercial bank by starting its banking operation from Chaitra 21, 2057 B.S. with an objective of providing competitive and modern banking services in Nepal. The bank has authorized capital of 1600 million and paid up capital of Rs. 900 million, of which 70 % is contributed from promoters and remaining from public.

Kumari Bank Limited has been providing wide-range of modern banking services through 16 points of representation across the country out of which 11 is out of valley. It has a corporate office in Durbar Marg, Kathmandu, branch offices at Putalisadak, New Road, Biratnagar, Itahari, Britamod, Birgunj, Bhirahawa, Damauli, Baglung and Pokhara.. The bank has adopted Globus Banking Software, developed by Temenos NV,

Switzerland, to provide centralized data base system to all branches. The bank has also been providing visa debit card, which has access on ATMs (including 14 own ATMs) and POS (point of sale) terminals both in Nepal and India. The bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, utility bill payment services, inward and outward remittance services, and various other banking services.

Within 7 years of its establishment, the bank has been able to recognize itself as an innovative and growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

### **B. Siddhartha Bank Limited**

Siddhartha Bank Limited (SBL) commenced operations in 2002. The Bank was promoted by a group of highly reputed Nepalese dignitaries having wide commercial experience. The bank provide a full range of commercial banking services through seven branches established in Kathmandu, Birgunj, Biratnagar, Pokhara and Damak. The Vision statement of the Bank describes the core values and purposes that guide the Bank as well as an envisioned future. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology.

SBL's vision is to be financially sound, operationally efficient and keep abreast with technological developments. The Bank firmly believes customer focus is a core value, shareholder prosperity is a prime priority, employee growth is a commitment and economic welfare is a sincere concern.

The Bank wants to be a leader among the banks of its age in Nepal by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative product and by developing and retaining highly motivated and committed staff. It directs all its efforts to move ahead with increased profits. The following mission statement is a guide to meet the Vision of the Bank:

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### **1.4 Concepts of Deposits**

People earn money spends it for various purposes and the remaining or the difference between the income and expenditure is the savings. One can use that portion of income in various ways like investing in securities, lending to others, keeping it in the safe lockers or simply depositing it in the banks. Deposits are the excess money of the individuals deposited in the banks and financial institutions in different types of accounts.

Commercial Bank act defines deposits 'as the amount deposited in current, saving or fixed accounts of a bank or financial institution.' Deposits are the starting point of banking transactions. Deposits are the source of the funds for its operations and for the

individuals it is the safeguard of money with certain percent of return. The functioning and the growth of banks depends upon the size and the growth of its deposits. Deposits are like the blood for any commercial banks, without adequate amount of deposits no commercial banks can operate and survive. Banks collect deposits through various accounts. The major types of deposits are explained below:

### **1.4.1 Types of Deposit**

Banks take deposit from individuals and institutions in different types of accounts. The deposits of commercial banks can be classified as follows:

- A) Interest Bearing Deposits
- B) Interest Free Deposits

#### **A) Interest Bearing Deposits**

Deposits in which banks are required to pay certain rate of return is known as interest bearing accounts. The return is known as interest. The depositors get certain percent of return depending on bank's policy. The interest bearing deposits include Saving, Fixed, Call and recurring deposits.

##### **I. Saving Deposits**

Saving deposits are for the saving purpose. Generally individuals who have wishes to save something out of their income for future uses this type of deposits. This type of deposit encourages the habit of saving of the people. Banks accept deposits from individuals and non profit making organization. In this type of deposit interest is paid with certain restriction in the withdrawal amount.

## **II. Fixed Deposits**

These types of deposits are for fixed period of time. In this deposits money is deposited for certain period of time with certain rate of interest. Banks offer fixed interest rate on the deposits and repays principal together with interest on maturity or interest is paid on regular interval. This deposit is for fixed amount and fixed time.

## **III. Call Deposits**

Call deposit is the hybrid deposit which incorporates the characteristics of both current and saving's deposit. In call deposits money can be withdrawn at call and it also earns certain rate of interest. Mostly business houses prefer call deposits because earn interest and can withdraw money whenever required. The interest rate is fixed on negotiation between the bank and the depositor.

## **IV. Recurring Deposits**

In this type of deposits the depositors is required to deposit the fixed amount in each installment and is repaid a fixed amount at maturity. In Nepal, various types of recurring deposits schemes are being introduced by finance companies.

## **B) Interest Free Deposits**

The deposits in which the banks do not pay interest are known as non interest bearing deposits or interest free deposits. Following are the types of interest free deposits.

### **I. Current Accounts**

It is the widely used interest free deposit which is also known as demand deposits. This type of deposits is normally operated by business organization and

people who have to withdraw funds any time. No withdrawal restrictions are imposed and no interests are paid on these types of deposits.

## **II. Margin Deposits**

Banks issue guarantees, letter of credit and accepts safe deposit lockers. Banks require certain amount as security for the above actions. Such amount held as security for different purposes as put in the different types of margin account of respective customers. Separate margin accounts are opened for different customers according to the requirement. Interest is not paid on the amount deposited in such accounts. The amount in the margin accounts are refunded once the concerned tasks are completed.

### **1.4.2 Introduction to Deposits of Kumari Bank Limited**

Kumari bank collects deposits through different types of interest bearing and non interest bearing deposits. Following are the different types of deposits used to collect funds:

#### **a) Saving Deposits**

Kumari Bank Limited has different types of savings accounts. The minimum balance in this accounts range from Rs.1000 to Rs.5 million. The interest ranges from 4% to 5% depending upon the type of the deposit. The interest is paid on the monthly minimum balance. This type of account is opened in both local and foreign currency.

#### **b) Current Deposits**

Current deposits comprises the major portion of the total deposit of Kumari Bank Limited. No interest is provided in this account. There is no restriction in the withdrawal and the minimum balance is Rs.1000.00. This type of account is opened in both local and foreign currency.

### **c) Call Account**

Call Account is major source of deposits of Kumari Bank Limited. Mostly large corporate houses and big institutions opens this type of account. The rate of interest is fixed by negotiation between the bank and the depositors.

### **d) Margin Account**

Kumari Bank margin account for various purposes like for issuance of letter of credit, bank guarantee, safe deposit locker etc. No interest is paid on the amount collected and the amount depends upon the nature of the purpose.

### **f) Fixed Deposits**

Kumari Bank accepts different types of fixed deposits of different period providing different rates of interest. The interest ranges from 2% to 6.5 % for individual customers for the duration of 14 days to 2 years and above. The interest rate of the institutional fixed deposit ranges from 6.50 % to 7.25 % for the duration of 1 year to 2 years and above.

## **1.4.3 Introduction to Deposits of Siddhartha Bank Limited**

Siddhartha Bank Limited also collects deposits through different types of deposits. In general following types of accounts are used

### **a) Saving Deposits**

SBL has different types of saving accounts namely Siddhartha Bachat and Siddhartha Bachat with the minimum balance of Rs.1000.00 to Rs.50, 000.00. The rate of interest varies from 4.25% to 5%. The interest is paid on the daily and monthly minimum balance basis. This type of account is opened in both local and foreign currency.

### **b)Current**

Depositor can withdraw any amount after meeting the minimum requirement of the account. No interest is provided in the account .The minimum balance in the account is Rs. 10,000.00 This type of account is opened in both local and foreign currency.

### **c) Call Deposits**

The interest is paid on the basis of the nature of transaction, volume and the tenure of the deposit .This type of account is mainly opened by the business organization having excess funds. The interest is negotiable.

### **d) Margin accounts**

Siddhartha Bank margin account for various purposes like for issuance of letter of credit, bank guarantee, safe deposit locker etc. No interest is paid on the amount collected and the amount depends upon the nature of the purpose.

### **e) Fixed Deposit**

Siddhartha Bank accepts fixed deposits for the period of I month to 1 year and above providing interest that ranges from 2.75 % p.a to 7.25 % p.a based on the client.

## **1.5 Concepts of Deposit Mobilization**

Banks collect funds in the various form of deposits. Banks has to pay interest on that deposits so banks cannot keep the money in their vault, it has to move the funds in the productive sectors to earn enough return so that the interest can be paid and the bank itself can earn some profit form the process. Thus deposit mobilization is the process of moving the collected funds to the productive sectors to gain something in return. Deposit mobilization is the second important functions of any bank as without it no bank can survive. If the bank cannot mobilize its deposits it cannot earn enough money to pay the



interest to the depositors and earn profit. Deposit mobilization is moving the funds to gain from it. The success of any commercial bank depends on the efficient mobilization of its deposits. Deposit mobilization is scattering the collected fund in the different sectors to gain form the process.

### **1.5.1 Need of deposit mobilization**

Deposit mobilization is the important aspect of the banking business. Without efficient deposit mobilization no banks can survive. The main objective of any bank is to collect money and lend them to the people and institution that are in the need of the money. From this process the bank earns certain profit. Deposit mobilization is one of the primary functions of the commercial banks, it is the task that generates much of the income of the commercial banks. Banks earn interest from mobilizing the collected funds. If the banks keep the collected deposits idle in the vault it cannot create income from the fund and cannot pay the return to the deposit holders. From the perspective of the bank deposit mobilization is the day to day function. It is the process of utilizing the collected fund in the form of deposit to earn return from in order to survive and pay interest to the deposit holders.

### **1.5.2 Advantages of deposit mobilization**

Deposit mobilization is one of the primary functions of the bank, it has to mobilize funds in order to survive. In the order hand it is also important from the view point of the economy and the people outside the banking sector. The advantages of deposit mobilization can be listed as follows:

- a) Circulation of the idle money
- b) Channelise idle money in the productive sector.

- c) Provides capital to the economy.
- d) Development of the banking habit.

### **1.5.3 Methods of deposit Mobilization**

Banks use its deposits to earn something in return so that it can pay interest to depositors and gain profit. Bank mobilizes its deposits in various sectors in various forms. The most important form of deposit mobilization is loan and advances to various individual and institution at the certain rate of interest. The most widely used form of deposit mobilization is discussed below:

#### **1.5.3.1 Loan and advances**

Loans and advances are the important tool for deposit mobilization. Major portion of deposit collected are mobilized through loans and advances in various sectors and various forms. Commercial banks provide loans in various sectors like consumer loans, business loan etc. Normally, commercial banks disburse loans in four forms namely overdraft, cash credit, direct loan and discounting bills of exchange. Loans and advances constitute a major portion of the assets of a commercial bank and the interest income earned from loans and advances is a major contributor to a bank's profit. Commercial banks provide loans to various individuals and business entity by charging certain rate of interest. The interest earned from the loans and advances is one of the major source of income of commercial banks. Commercial banks provide loans and advances in the following forms:

##### **A) Overdraft:**

It denotes the excess amount withdrawn over their deposits. Interest is charged in the basis of amount used of the credit.

**B) Cash Credit:**

The credit is not given directly in cash but deposit account is being opened on the name of credit taker and the amount credited to that account. In this way, every credit creates deposit.

**C) Direct Credit:****i) Term Credit**

It refers to money lend in lump sum to the borrowers. It is principal form of medium term debt financing having maturities of 1 to 8 years. A bank credit with maturities exceeding 1 year is called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet the firm's special needs.

**ii) Working Capital Credit:**

Working capital denotes the difference between current assets and current liabilities. It is granted to the customers to meet their working capital gap for supporting production process. A natural process develops in funds moving through the cycle are generated to repay a working capital credit.

**iii) Priority or Deprived Sector Credit:**

Commercial banks are required to extend advances to the priority and deprived sector. 12 % of the total credit must be towards priority sector including deprived sector. Rs. 2 million for agriculture cum service sector and Rs. 2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to 'Agriculture Development

Bank' and 'Rural Development Bank' are also considered under this category. Deprived sector lending includes:

- ) Advances to poor/down-trodden/weak/deprived people up to Rs. 30,000 for generating income or employment.
- ) Institutional credit to rural development bank.
- ) Credits to NGOs those are permitted to carry out banking transactions for lending up to Rs. 30,000.

**iv) Hire Purchase Financing (Installment Credit):**

Hire-purchase credits are characterized by periodic repayment of principal and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principal as well as interest with an option to purchase. A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

**v) Housing Credit (Real Estate Credit):**

Financial institutions also extend housing credit to their customers. It is different types, such as: residential building, commercial complex, construction of warehouse etc. It is given to those who have regular income or can earn revenue from housing project itself.

**vi) Project Credit:**

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credits are short-term credits made to developers for the purpose of completing proposed projects. Maturities on construction credits range from

12 months to as long as 4 to 5 years, depending on the size of the specific project (*Johnson, E., 1940: 242*). The basic guiding principle involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit will be disbursed at which stage of completion must be spelled in disbursement policy. Term of credit needed for project fall under it.

**vii) Consortium Credit:**

No single financial institution grant credit to the project due to single borrower limit or other reason and two or more such institutions may consent to grant credit facility to the project of which is baptized as consortium credit. It reduces the risk of project among them. Financiers bank equal (or likely) charge on the project's assets.

**viii) Credit Cards and Revolving Lines of Credit:**

Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administrative cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Charge cards and credit lines tied to demand deposit accounts are the two most common revolving credit agreements. It can be further divided into credit cards, automatic overdrafts lines and large credit lines.

**ix) Off- Balance Sheet Transaction:**

In fact, bank guarantee and letter of credit refer to off balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints

the liability, which may or may not arise during the happening of certain event. Footnotes are kept as reference to them instead of recording in the books of accounts.

It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

**x) Bank Guarantee:**

It is used for the sake of the customers in favor of the other party (beneficiary) up to the approved limit. Generally, a certain percent amount is taken as margin from the customer and the customer's margin account is credited.

**xi) Letter of Credit (L/C):**

It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C. It is also known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities.

**d) Discounting of Bills:**

It is the main function of commercial banks. Discounting of bill means made payment of bills, which are issued by commercial banks as well as central bank, NRB, before their expiration date or matured time. Therefore, payment should be less than the total amount because of their uncertainty.

**1.5.3.2 Investment**

Investment is another form of deposit mobilization for commercial banks. An investment involves the sacrifice of the current rupees for future rupees. Investment is the employment of funds with the aim of achieving additional income or growth in value. An

investment is a commitment of funds made in the expectation of some positive rate of return. Investment involves the risk, return and the time factor i.e money are invested for certain return bearing certain risk for certain time. Commercial banks invest in various sectors from the collected deposits to earn certain rate of return. Commercial banks invest in short term assets like financial papers from the fund collected through deposit mobilization, investment in real assets like fixed assets are done through funds through shareholders equity and other long term source of funds. Investment of commercial banks can be categorized as follows:

#### **A) Government Securities**

Most of the commercial banks invest in the government securities. It is the securities like Treasury notes, Treasury bonds, and Saving bonds. These types of securities has the maturities between 1 to 10 years and above 10 years. Government securities are the safest of all investment and fixed income securities as the government is unlikely to default.

#### **B) Investment in other banks**

Commercial banks invest in the other banks in the form of cash deposit in the accounts held with them and in the form of call account and placement. Commercial banks deposits their excess money in other commercial banks in the call account at certain rate of interest and the fund is available whenever required. Another form of investment is placement. Commercial banks lends money to other banks financial institution for the shorter duration at the certain rate of interest.

### **C) Other Bonds and Securities**

Commercial banks invest in bonds and securities issued by other institutions like banks, finance companies and other types of institutions. Commercial banks invest in the bonds and the securities like common stock of other companies.

#### **1.5.3.3 Cash and Bank Balance**

Commercial banks has to keep the certain portion of their total deposit in the form of the cash balance in their vault and in the form of the deposit in the account held with the Nepal Rastra Bank. As per the statutory requirement of the central bank and to maintain the certain level of liquidity commercial banks has to maintain cash and bank balances out of their total deposit.

#### **1.5.4 Introduction to Deposits Mobilization of Kumari Bank Limited**

Kumari bank collects deposits through and mobilizes in various sectors in the form of loan and advance and investments.

### **D) Loan and advances**

The bank grants loans in the following sector:

#### **a) Personal Loan**

Kumari Bank limited grants personal loan in the following sectors

##### **i) Vehicle loans**

The bank provides loan up to 80 % of the cost of the vehicle. Depending upon the type of the vehicle a loan of NPR 3 lakhs to NPR 50 lakhs is availed at equal monthly installment for minimum 12 months or maximum 60 months at the interest of 9 % to 11%.



## **ii) Home Loan**

The bank provides home loan to the salaried individuals and entrepreneur upto 60 % of the cost of the purchase/construction/renovation of land/house within municipal boundaries. The loan is provided for NPR 5 lakh to NPR 40 Lakhs depending upon the income of the borrower at the interest rate of 9% to 10.50 % for the tenor of minimum 12 months to maximum 120 months.

## **iii) Consumer Product Financing**

KBL finances for the purpose of durable and household equipments like televisions, furniture, computers, refrigerators etc. the loan amount is availed upto 70 % of the cost of the product for the amount of NPR1 lakh to NPR5 lakh depending upon the income of the borrower. The tenor of the loan is between 12 months to 24 months at the rate of 12%.

## **iv) Travel Loans**

This loan is provided to the salaried individual, professional and entrepreneurs for the purpose of traveling. The loan is provided upto 70% of the ticket and tour expenses. The loan can be repaid over the period of 12 months. The rate of interest is 12%.

## **v) Education Loan**

KBL provides education loan for the education of the children. 60 % of the cost of tuition fees and admission is financed by the bank. Depending upon the income of the parents a loan of NPR 1.5 lakh to NPR 8 lakhs for the tenor of 12 months to a maximum of 60 months at the rate of 10.50%.

## **b)Business Loan**

KBL provides loans to the business sectors for their operation in different forms. The business loan is provided in the following headings:

### **i) Working Capital Financing**

KBL finances against stocks and accounts receivables to meet the short term cash requirement in the form of credits (overdrafts) and demand loans.

### **ii) Term Loan**

KBL finances the capital expenditure of small, medium and large scale companies in the form of term loan for periods in excess of 1 year. All loans for tenors above one year are generally secured by first charge on fixed assets or current assets of the borrower with an acceptable asset cover. The interest rate in these types of loan is 10 % to 12 %.

### **iii)Hire Purchase**

Purchase of equipment, vehicles, machinery etc is possible through the hire purchase schemes of the bank. The interest rate is 9% to 11%.

### **iv)Short Term Loan**

KBL finances capital expenditure of small, medium, and large scale companies in the form of term loans for periods less than one year at the interest rate of 10% to 12%.

### **v)Bills Discounting/Purchase**

KBL purchase discount the outstation cheques and provide instant cash.

#### **vi) Export/Import financing**

Preshipment credit is offered to exporters by way of packing credit to enable them to finance purchase/import of raw materials, processing and packing of the goods meant for exports. Also the post shipment loan is provided to exporters to finance export sales receivables after the date of shipment of goods till the date of realization of export proceeds. Similarly import credit facility is offered to importers to meet the funding requirement from the port of discharge to either custom point or warehouse of the importer.

**II) Investments** Kumari Bank has invested in funds in different government securities, treasury bills development bonds etc. Besides this the bank has invested in the shares of the C.S.I limited

#### **III) Cash and Bank Balances**

Kumari Bank has maintained certain level of cash balance in their vault and has also maintained balances in different domestic and foreign banks.

### **1.5.5 Introduction to Deposits Mobilization of Siddhartha Bank Limited**

\_Siddhartha Bank mobilizes its deposits in various sectors of loans and investments.

#### **I) Loan and advances**

The bank grants loans in the following sectors:

##### **a)Business Loan**

Siddhartha Bank provides loan to the business houses for the operation of the business in various categories according to their requirement. The bank provides loan in the form of

working capital loan like overdraft to meet the daily operation requirement of the business at the rate of 10.25 % to 11.25%. Like wise import loans and export loans is provided to the importer and exporter upto 80% of the export lc value at the rate of 8.5% to 11%. Similarly consortium loan is provided for the large scale business operation.

#### **b)Home Loan**

the bank provides long term loan up to 20 years on Emi repayment for buying land, construction/renovation of a residential house or residential cum commercial building. The interest rate on this loan is 9.75% to 11.25%.

#### **c) Education Loan**

Siddhartha Education Loan is provided to the students undergoing for higher studies in Nepal or abroad at the interest of 10.50% to 11.25%. This type of loan can be extended to students or parents/guardians to the extent of maximum 75% of the cost of the tuition fee and hostel charges against the mortgage charge over the fixed properties (land/building). The parent/guardian to produce evidence of regular source of income to meet the repayment of principal and interest.

#### **d) Personal Loan**

The purpose of this facility is to provide financial accommodation to individuals to meet their personal or business requirements. This type of loan is extended against the mortgage charge over the fixed properties by way of land/building to the persons who have adequate and regular source of income to meet the repayment installments and interest. The period of the loan is assessed on the purpose for which funds are required and the repayment capacity. Personal loan can be considered for a maximum period of 15 years at the rate of 10.50 % to 11.25%.

#### **d) Vehicle Loan**

This facility is extended for the purchase of vehicles for private and commercial use. The vehicle financed under hire purchase scheme is to be registered in the Bank's name. Maximum loan tenure is 5 years for commercial vehicle and 7 years for private car. Repayment is in equal monthly installments (EMI) at the rate of 10.00% to 11.25 %. Vehicle is to be insured in favor of the Bank. Loan is limited for branded vehicles sold by authorized dealers.

#### **II) Investment**

Siddhartha Bank has invested in funds in different government securities , treasury bills development bonds etc. Besides this the bank has invested in the shares of the C.S.I limited .

#### **III) Cash and Bank Balances**

Siddhartha Bank has maintained certain level of cash balance in their vault and has also maintained balances in different domestic and foreign banks.

### **1.6 Statement of problem**

The number of commercial banks in Nepalese market has increased very noticeable in the recent years. There are already twenty five commercial bank operating and there are other financial institution like finance companies, development banks, and cooperatives etc which accept deposits and grants loans.

Deposit collection has become a major issue in the present context of Nepalese financial markets. The large number of financial institutions operating in a small market has raised the competition among those institutions to attract deposits towards them. Even large commercial banks have introduced various deposits schemes to attract deposits.

Deposit mobilization is also the matter of concern. The political condition of the country has halted the economic growth, consequently this has reduced the markets for loans. The demand for loans from the commercial sectors has reduced leaving retail lending only as the option. Thus this has created a tough competition in the deposit mobilization also. Thus in this scenario of Nepalese banking sector, this study mainly deals with the following questions of the commercial banks:

- ) What is the total deposit?
- ) What is the composition of deposit?
- ) What is the cost associated with the deposit?
- ) What is the total loan?
- ) What is the composition of total loan?
- ) What the proportion of total loan over total deposit?

### **1.7 Objective of the study**

The objective of the study is to analyse the deposit collection and its mobilization of commercial banks .The main objectives are as follows:

- ) To analyse the total deposit and its composition.
- ) To analyse the cost of deposits.
- ) To find the position of deposit mobilization.
- ) To analyse the composition of total loan.
- ) To compare the total deposit with total loan.

## **1.8 Significance of the study**

Deposits and loans are like the life and blood for any commercial bank. Commercial banks act like agents between surplus and deficit units of the economy. The deposit of banks provides the funds needed for investments in various activities. The importance of deposit and its mobilization is very important in our country where there is a deficit of funds for investing in different sectors. Banks play a vital role in channeling the money from the savers to the needy. Deposit management for any commercial bank is a very important task. Banks have to pay great attention in collecting deposits and mobilizing them. Hence the study is intended to examine the performance of commercial banks in deposit collection and its mobilization. So this study is useful for shareholders, managers, customers and students who would conduct a study on deposits and their mobilization.

## **1.9 Limitations of the study**

This study has the following limitations

- ) This study is based on secondary data. Data available in the published annual report of the bank's annual report and published materials has been assumed to be fact.
- ) Due to lack of industry standards and accepted norms, the results cannot be categorized as good or bad.
- ) Adequate data cannot be obtained as some information is not provided by considering bank's secrecy.
- ) This study is for partial fulfillment of MBS, so time constraints exist.

## **1.10 Organization of the study**

The study is organized as follow:

- ) Introduction
- ) Literature Review
- ) Research Methodology
- ) Data presentation and analysis
- ) Summary, conclusion and recommendation.



# **CHAPTER-II**

## **REVIEW OF LITERATURE**

### **2.1 Conceptual Framework**

Review of literature can be defined as the process of reviewing the studies or other relevant research works done in the subject matter so that all the past studies and conclusions and the deficiencies may be known. It helps to know the past research works in the related topics and its outcome and offer vital links with various trends and phases in the researches. It helps to identify problems, determine methodology for the research work and avoid unintentional replication of previous research work and help to interpret the significance of research's results in a precise manner. An effective research is based upon the past knowledge, a survey of past literature helps to eliminate the duplication of what has been done. A review of previous related research helps to formulate a satisfactory structure for the new project.

To explore the relevant and true facts for the research purpose, this chapter highlights the literature available related to the study. An attempt has been made to look into bank publication, periodicals and central bank's rules and regulations. In addition, informal interviews with bank personnel and a few customers/ borrowers have been aimed to receive.

## **2.2 Conceptual review**

Bank is an institution which deals in money and credit. Banks are the institution which acts as an intermediary between different kinds of people and institutions who are in need of money and who can supply money at certain rate of interest. A bank simply carries out the work of exchanging money, providing loan, accepting deposits and transferring the money.

Kent defines bank as:

‘A Bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.’ (*Bhuvan Dahal ,A Handbook to Banking, Asmita Books and Stationery. 2002 P7*)

Commercial Bank means a bank which operates currency exchanges transactions, accepts deposits, provides loans, perform dealing, relating to commerce except the banks which has been specified for the co-operative agricultural industry of similar other specific objectives. *{(Section 2(a) Commercial Bank Act 2031(1974)}*

## **2.3 Review of Books Articles and interview**

In this section, the effort has been made in this present section to examine and review the some related articles published in different related books, economic journals, bulletins, magazines and newspapers.

**Dilli Raj Bhandari in the book ‘ Banking & insurance (Principle & Practice)’**, People in general deposit, the businessman, industrialists and other individuals deposit money in a bank. Actually, such amount is the main sources o capital for the commercial

bank. Banks flows such amount as loan and advances and invests in different sectors to earn profit. Usually a bank accepts three types of deposit. They are current, saving and fixed deposits. (*Banking & Insurance (Principle & Practice)*), Aayush publication, Kathmandu, 2002)

**Bhuvan Dahal & Sarita Dahal in the book ‘A Hand book to Banking’,**

A bank takes various types of deposits from individuals, business organization and other types of institutions. Normally they are classified into two types: Interest Bearing Deposit and Interest Free Deposit. Loan and advances dominate the assets side of the balance sheet of any bank Similarly earnings from such loan and advances occupy a major space in income statement of the bank. Lending can be said to be the *raison d’ etre* of the bank. (*A Handbook to Banking, Asmita Books and Stationery. 2002*)

**Madhu Sundar Shrestha in the book ‘Fundamentals of Banking’,**

Banks open various types of accounts having different features. Broadly speaking all accounts can be classified into interest bearing and non-interest bearing accounts. The accounts differ depending on the customer’s constitution. One of the basic function of commercial banks is to provide credit. Out of total income on an average 60-70% of income consists from lending activities. (*Fundamenrals of Banking, Buddha Academic Publishers and Dustributers Pvt Ltd, Kathmandu, 2007*)

**Ratna Man Dangol and Keshab Prasad Prajapati in the book ‘ Accounting for financial Analysis and planning’** mention the use of Ratio Analysis as follows,

- ) For expressing trend
- ) For showing changes in financial statement
- ) For explaining plan for future

- ) For setting standard
- ) For effective control
- ) for comparing efficiency
- ) for maintain uniformity.

*(Accounting for financial Analysis planning, Taleju Publication, Kathmandu, 2058)*

**In an interview Jyoti Pandey, Managing Director of Nepal Investment Bank**

Clarified the question of Annapurna Post that competition among commercial banks has increased to attract deposit. Banks has risen the interest rate of attract deposit to them. This has led to the decrease in the decrease in the difference of interest rate between deposits and investment. *(Annapurna Post, 22 Sep 2008)*

**In an interview with Annapurna Post, Sushil Joshi, Managing Director of**

**Himalayan, Bank** Clarified that commercial banks are not able to invest in hydropower projects, roads and other infrastructure because of huge amount of capital required for those projects and due to the political instability of the country. At present banks are willing to invest in these projects. *(Annapurna Post, 22 Sep 2008)*

**In an article, about banking services in Annapurna Post, Pramod Giri** indicated that

commercial banks are centralized and concentrated in the city area only. The people of rural area are not able to get the banking services. The deposit of rural people has not been able to reach the banking channel. After 2010 the Nepalese banking sector will be opened for the international banks and financial institution, in that context Nepalese banks face the challenge to be prepared to face the that competition. *(Annapurna Post, 22 Sep 2008)*

## **2.4 Review of Previous Thesis.**

In this section various thesis submitted by the T.U students which are relevant to the study are briefly reviewed.

In the thesis entitled, “**Deposit Mobilization in Commercial Banks in Nepal**” (2006) Mishra, Rupani concluded that deposits are the major source of funds and for the loan and advance. The total deposit is increasing but not in a definite pattern. Commercial banks prefer loan rather than investment in the case of deposit mobilization. Resources utilization of the commercial banks is not optimum and the interest spread rate and net interest margin is very high.

She recommended that the commercial banks should increase the interest rate in the deposit, expand branches proper utilization of fund should be done with proper mechanism of loan recovery. Also commercial should explore new sectors for investment with the improvement the banking sector.

In the thesis by Neupane Amit “**Analysis of Deposit mobilization of Commercial Banks in Nepal**” (2007) he conducted the study by referring Standard Chartered Bank and Nepal Bank Limited. He concluded that private banks are more efficient in deposit collection. But his study reflected Nepal Bank’s rate of deposit mobilization was greater than Standard Chartered Bank but the private sectors banks maintains strong liquidity and earns more profit.

As a recommendation given by him commercial banks should expand their branches in more areas. More lending should be promoted with liberal lending policy and with new areas of retail banking. He also suggested new investment opportunities should be explored.

In the thesis entitled, “**Fund Collection and Mobilization of Joint Venture Banks**” (2007) Neupane Lilawati concluded that banks should increase the amount of deposit and invest in the loans and advances and the investments. Banks should maintain adequate liquidity. The credit policy of the commercial banks should be carefully implemented to increase the lending in new and modern schemes. Similarly amount of the investment should be increased. Also she focused on the expansion of branches in the rural sectors.

In the thesis entitled, "**Loan Management of Commercial Banks**"(2007) Adhikari Anita conducted the study with reference to Kumari Bank Limited and Nepal Bank Limited. She concluded that Kumari Bank is positive in increasing the deposit, loan and advances, investment and the income of the bank is also increasing. But in the case of Nepal Bank limited it is found that they were behind in all the aspects. Thus the study concludes that private banks are more efficient in loan management with greater attention.

In the thesis entitled, “**Credit Policy Analysis of Listed Commercial Banks in Nepal**” (2007) Shrestha Beni conducted the study with reference to Kumari Bank and NIC Bank Limited. She concluded that NIC bank as well as Kumari bank is investing high percentage of total deposits in total loan & advances than in total investments. So that both banks should increase their lending in investments of other companies share, debenture, government treasury bill etc. for regular and fixed return.

The liquidity position of NIC bank is more positive than Kumari bank. So NIC bank should search for new area of investments to reduce in surplus cash balance.

Most of the customers are unsatisfied with the service charges and interest rate of credits. Therefore, both banks should decrease service charges and interest charges.

## **2.5 NRB rule regarding fund mobilization of commercial Banks.**

To mobilize bank's deposit in different sector of the different parts of the nation to prevent them from the financial problems, central bank (NRB) may establish a legal framework by formulating various rules and regulations( Prudential norms). These directives must have direct or indirect impact while making decision to discuss those rules and regulation which are formulated by NRB in term of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR, loan loss provision, Capital adequacy ratio, interest spread, productive sector investment etc. a commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and the counters, how much flexible and helpful the NRB rules are important. But we discuss only those, which are related to investment function of commercial banks. The main provisions established by NRB in the form of prudential norms in above relevant area are briefly discussed here.

### **2.5.1 Directives relating to loan classification and loan loss provision**

Effective from fiscal year 2001/02, Bank should classify outstanding loan and advance on the basis of aging of principal amount. Loans and advances should be classified into the following four categories:

- a) **Pass:** Loans and advances whose principal amount are not past due and the past due for a period up to 3 (three) months shall be included in this categories. These are classified and defined as performing loans.
- b) **Substandard:** All loan and advances that are past due for a period 3 months to 6 months shall be included in this category.

c) **Doubtful:** All loan and advance, which are past due for a period of 6 months to 1 year, should be included in this category.

d) **Loss:** All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

Loan and advances falling in the category of sub – standard, doubtful and loss are defined as non- performing loan.

Here, if it is appropriate in the views of the bank management, there is not restriction in classifying the loan and advance form new risk category to high risk category. For instance loans falling under sub-standard category may be classified in to doubtful or loss and loans falling under doubtful ma be classified into loss category. And the term loans and advance also include bill purchased and discounted.

**Loan loss provisioning:**

The loan loss provisioning on the basis of the outstanding loans and advance and bills purchased as above should be provided as follows

<b>Classification of Loan</b>	<b>Loan loss provision</b>
Pass	1 %
Sub-Standard	25 %
Doubtful	50 %
Loss	100 %



Loan loss provision set aside for performing loans is defined as general loan loss provision and loan loss provision set aside for non-performing loan is defined as specific loan loss provision.

## **2.5.2 Directives relating to loan Capital adequacy Norms for commercial**

### **Banks**

Maintenance of the minimum capital fund: The total capital fund is the sum of core capital and supplementary capital.

On the basis of the risk-weight assets, the banks should maintain the prescribed proportion of minimum capital funds as per the following time table:

Time Table	Core Capital	Capital Fund
For FY 2058/59	4.5 %	9.0 %
For FY 2059/60	5.0%	10.0 %
For FY 2060/61	6.0 %	12.0 %
For FY 2061/62	6.0 %	12.0 %
For FY 2062/63	6.0%	12.0 %

### **2.5.3 Directives relating to interest Rates**

According to previous directives, the difference between the interest provided and interest charged (spread rate) should not be more than 5 %. These difference are calculated on this of the weighted interest to the directives of circular issued on 16<sup>th</sup> July 2002, the requirement to maintain average interest spread at 5 % has been with draw from the time being.

### **2.5.4 Directives to cash reserve ratio requirements (CRR)**

To ensure adequate liquidity in the commercial banks, to meet the depositors' demand for the cash at any time to inject the confidence in depositors regarding the safety of their deposited funds, commercial banks are required to have maximum CRR. In this regards Nepal Rastra Bank has directed commercial banks to deposits in their own bank's vault.

## **2.7 Research Gap**

Previous researcher could not cover all the aspect of the deposit and its mobilization, likewise many of the previous research is concentrated in the study of the total funds only including the equity capital fund. Present study concentrates on the deposit collection and its mobilization because collection deposit and its mobilization is one of the primary and important functions of commercial banks, without which banks cannot survive and run the business. Similarly the study also focuses on the composition of the deposit and the mobilization in the different sectors. The study also analyses the cost of deposit and the returns from the various sectors.

# CHAPTER-III

## RESEARCH METHODOLOGY

### **3.1 Introduction**

Research is common parlance refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles: diligent investigation in order to ascertain something.

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem among with the logic behind them.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object(s) in view. It describes the methods and processes applied in an entire aspect of the study. In fact, research methodology is a systematic way of solving the research problems.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

### **3.2 Research Design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance.

A research design is a plan for the collection and analysis of data. It presents a series of guideposts of enable the researcher to progress in the right direction in order to achieve the goal.

This study attempts to analyses the deposit collection and its mobilization by commercial banks with reference to Kumari Bank Limited and Siddhartha Bank Limited. The research design follows the deposit structure and its mobilization in the various sectors.

### **3.3 Population and Sample**

**Population:** The well-specified or identifiable group of people, events or things of interest that the researcher wishes to investigate is known as the population. Population is whole aggregate number in which the researcher has to study.

According to young "The entire group from which a sample is chosen is known as the population."

Population may be finite or infinite. A finite population is one where the entire member can be easily counted or one containing a fixed number of elements.

**Sample:** It is the part of the population that we actually examine in order to gather information. Population is a large unit so it is time consuming, tedious and nearly impossible to analyze each and every individual of the population. So, only a part of population is considered.

The population for this study comprises all the commercial banks of Nepal. There are 25 commercial banks in Nepal. Since all the 25 commercial banks cannot be studied following two commercial banks are taken as samples on the basis of established by Nepalese promoters:

A) Kumari Bank Limited

B) Siddhartha Bank Limited

### **3.4 Sources of data**

The study is based on secondary as well as primary source of information. The secondary sources of data are collected from its corporate offices located in Kathmandu and its web sites. For the purpose of the study, financial statements published by Kumari Bank and Siddhartha Bank in time to time, annual reports, published reports and bulletins, economic survey reports, other related available documents, various research documents and other secondary sources of information were basic sources of secondary data.

Primary data was collected through structured questionnaires. The questionnaires were designed to study various components of deposit liquidity lending and non performing assets. The basic source of primary information was the employees of Kumari Bank and Siddhartha Bank.

### **3.5 Data analysis tools**

The collected data are analyzed by using various financial tools as well as statistical tools, which are given and defined as below:

#### **A. Financial tools.**

Financial tools basically help analyze the financial strength and weakness of a firm. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concerned especially to take output and loan management decision. Ratio analysis is used to compare firm's financial performance and status that of the other firms or to it overtime. Even though there are many ratios to analyze and interpret the financial statement, those ratios that are related to the investment to the investment operation of the bank are have been covered in this study. the following types of ratios have been used in this study.

#### **i. Liquidity Ratios:-**

This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short term obligations or its current liabilities. It measures the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligation. As a financial analytical tool following liquidity ratios has been used to come into the acts and finding of the study.

) Cash and Bank balance and NRB balance to total deposit ratio

**ii. Asset Management Ratios:-** Assets management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converter the liability in to assets by way of its efficiency by multiplying various liabilities and performing assets.

The following are the various ratios relating to asset and liability management, which are used to determine the efficiency of the bank concerned in managing its assets and efficiency in portfolio management.

- ) Loan and advance to total deposit ratio
- ) Investment to total deposit ratio
- ) Other investment to total deposit ratio

### **iii. Activity Ratio**

Activity ratio measure the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short term funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advance in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

- ) Loan loss provision to total loan and advance ratio.
- ) Non performing loans to total loans and advance ratio

### **iv. Profitability Ratios:**

Profitability ratios are used to indicate and measure the overall efficiency of a firm in term of profit and financial performance. For better performance, profitability ratios of firm should be higher.

- ) Interest income to loan and investment ratio
- ) Return on loan and advance ratio
- ) Return on investment ratio

## **B) Statistical Tools**

There are different statistical tools; here few statistical tools are used to analyze the study as per requirements.

### **i. Arithmetic Mean: -**

The sum of all the observations divided by number of observation is called arithmetic mean or simple average. In equation:

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

Where,  $\sum X = X_1 + X_2 + X_3 + \dots + X_n = \text{Sum of given set of observation}$

$n = \text{Number of items observed.}$

$X = \text{Variables}$

### **iii. Correlation and Regression: -**

Correlation is defined as the "relationship" (of association) between (Among) the one dependent variable (or factor) and one (or more than one) independent variable (s) or factor (s). In the other words, correlation is the relationship between (or among) two or more variables (I.e. Only one variable dependent and one or more variable (s) independent).

Regression is the statistical tool which is used to determine the statistical relationship between two (or more) variables and to make estimation (of prediction) of one variable on the basis of the other variable(s). In the other words, regression is that statistical tool with the help of which the unknown value of one variable can be estimated (or predicts) on the basis of known value of the other variable. Assuming that the two variables are



closely related. We can estimate the value of the one variable from the given value of another.

The analysis used to describe the average mathematical relationship between two variables is called "simple linear regression analysis". "Simple" because there is only one independent variable and linear" because the relationship between the independent and dependent variables is assumed to be linear.

Prediction (or estimation) is one of the major problems in almost all spheres of human activity. The estimation (or prediction) of future production, consumption prices, investments, sales, profits, income etc. are very important to businessman or economist.

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

Where,

N = Number of pairs of observation.

X= Variable

Y = Variable

r = correlation of coefficient

The relationship between the two variable can be measured either by graphical method (scatter diagram) or by numerical calculation method.

The numerical measurement of relationship between the two variables is denoted by the symbol "r" whose values ranges from

$$-1 \leq r \leq 1$$

Interpretation:

- i) If  $r=0$ , there is no relationship between the variables
- ii) If  $r<0$ , there is negative relationship between the variables
- iii) If  $r>0$ , there is positive relationship.
- iv) If  $r=+1$ , the relationship is perfectly positive
- v) If  $r=-1$ , the relationship is perfectly negative

#### **iv. Probable Error (P.E):-**

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient, 'r'. The probable error (P.E) is defined by,

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

Where,

r = correlation coefficient

N = Number of pairs of observation

Conclusion:

- (i) If  $r < 6 \text{ P.E}$ , the value of 'r' is not significant no matter how high r value is i.e. there is no evidence of correlation between the variables.
- (ii) If  $r > 6 \text{ P.E}$ , the value of r is significant i.e correlation is significant.

### **3.6 Limitation of the Methodology**

This study has the certain limitations. This study is based on secondary data which is available in the published annual report of the bank annual report and published materials which has been assumed to be fact. So the accuracy of the data depends on those reports.

Also due to lack of industry standards and accepted norms, the results cannot be categorized as good or bad. Adequate data cannot be obtained as some information is not provided by the bank considering their secrecy. This study is for partial fulfillment of MBS, so time constraints exist. Although, there were certain limitations during the research work, it is not so crucial that it can weaken the basic findings of the study.

## **CHAPTER IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

Presentation and analysis of data is an important stage of the research study. The main purpose of analyzing the data is to change it from an unprocessed form into an

understandable presentation. The analysis of data consists of organizing data by tabulating and then placing that data in presentable form by using figures and tables.

The main objective of the study is to analyze the deposit collection and its mobilization of commercial banks, analyze the cost of deposits, find the position of deposit mobilization, and to compare the total deposit with total loan and investments of the commercial banks.

This chapter contains the analysis and interpretation of the available and relevant data of two commercial banks selected as the sample banks. Five years' data period covering from the F/Y 2059/60 A.D. to 2063/64 B.S.(2002/03 A.D to 2006/07 A.D) have been analyzed and interpreted as per the research methodology defined in chapter three. In the following section, the relevant and generated data (i.e. both primary and secondary) relating to the study is presented in tabular form and analyzed it in systematic way. To analyze the data, various financial as well as statistical tools are employed.

## **4.2 Analysis of Deposit and its Composition**

Deposit is the like the blood for any commercial bank. Efficient and proper functioning of the bank depends upon the ability of the bank to collect the deposit. In many cases the performance of the bank is measured on the basis of the amount of the deposit it can collect.

### **4.2.1 Analysis of Total Deposit**

Total deposit is sum of different types of Deposit collected by commercial banks.

#### **A) Total Deposit of Kumari Bank Limited**

**Table no: 2**

**Total Deposit of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Total Deposit</b>	<b>Change %</b>
2002/03	2,513.14	-
2003/04	4,807.94	91.31
2004/05	6,268.95	30.39
2005/06	7,768.96	23.93
2006/07	10,557.42	35.89
<b>Total</b>	<b>31,916.41</b>	

The table 2 shows the total deposit collection of Kumari Bank Limited in the for the five year period starting from 2002/03 to 2006/07. The table also shows the percentage change in the total deposit in the given years. The total deposit has increased by 91.31 % in the 2003/04 compared to the previous year. Similarly the total deposit increased by 30.39 % in 2004/05, by 23.93 % in the year 2005/06 and by 35.89% in the year 2006/07. The deposit collected for the study period is Rs. 31,916.41million.

#### **B) Total Deposit of Siddhartha Bank Limited**

**Table no: 3**  
**Total Deposit of Siddhartha Bank**  
(Rs in million)

<b>Year</b>	<b>Total Deposit</b>	<b>Change %</b>
2002/03	391.68	-
2003/04	1,291.31	229.68
2004/05	2,461.92	90.65
2005/06	3,918.08	59.15
2006/07	6,625.08	69.09

<b>Total</b>	14,688.07	
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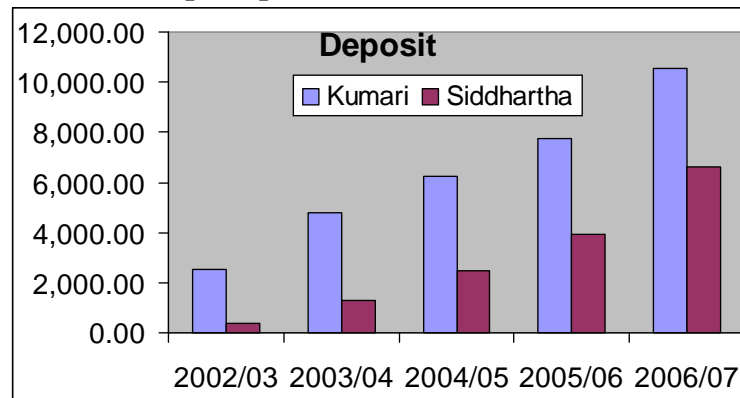
The table 3 shows the total deposit collection of Siddhartha Bank Limited for the study period. The table also shows the percentage change in the deposit collection in the given years. It is clear from the above table that Siddhartha Bank was able to increase the total deposit up to 229.68 % in the year 2003/04 compared to the previous year. Likewise the deposit has increased by 90.65% in the year 2004/05, by 59.15% in the year 2005/06 and by 69.09% in the year 2006/07. The deposit collected for the study period is Rs.14,688.07 million.

#### **Comparative analysis**

From the above presentation is clear that both banks are able to increase the amount of deposit. Although the percent in the increase of deposit is very different with both the banks, it can be concluded that the deposit collecting pattern very much similar. In the

year 2006/07 the change in the deposit is greater of Kumari Bank Limited than Siddhartha Bank because during the period KBL launched the lottery schemes of House. This also shows that commercial banks are able to collect ample amount of deposit. The above data can also be presented in the graphical form which is shown below:

**Figure 1**  
**Total Deposit of Kumari Bank and Siddhartha Bank**



#### 4.2.2 Analysis of Composition Deposit

Commercial bank collects deposits through different types of accounts. The table below shows the segregation of the total deposit in different types of deposits.

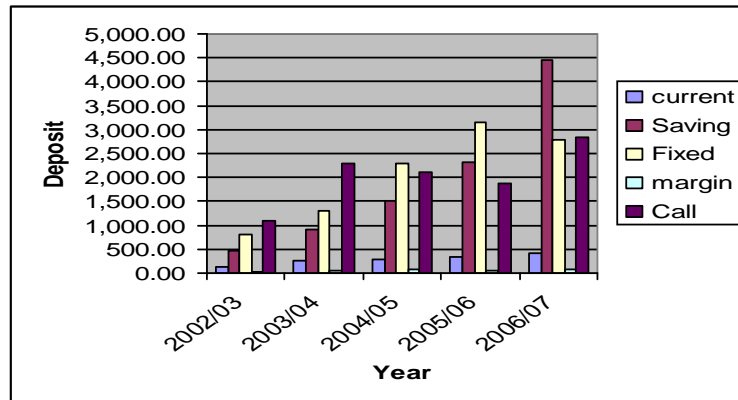
##### A) Deposit Composition of Kumari Bank Limited

**Table no: 4**  
**Deposit composition of Kumari Bank**

(Rs in million)

Year	Current	Saving	Fixed	Margin	Call
2002/03	135.08	461.94	795.40	27.37	1093.35
2003/04	251.05	902.94	1,292.45	61.57	2,299.94
2004/05	279.36	1,515.58	2,302.09	69.09	2,102.84
2005/06	350.82	2,317.84	3,162.83	56.72	1,880.74
2006/07	403.80	4,461.70	2,776.48	87.73	2,827.70
<b>Total</b>	1,420.11	9,660	10,329.25	302.48	10,204.57

**Figure: 2**  
**Deposit Composition of Kumari Bank**



The above table and figure shows the deposit composition of KBL. Saving deposits and fixed deposit contributes more to the total deposit. In the year 2006/07 saving deposit is the largest sources of deposit because the bank was able to collect more saving deposit to the house lottery scheme, 'Bank ma Balance Haat ma Ghar' the amount of deposit being Rs.4461.70 million.

**B) Deposit Composition of Siddhartha Bank Limited**

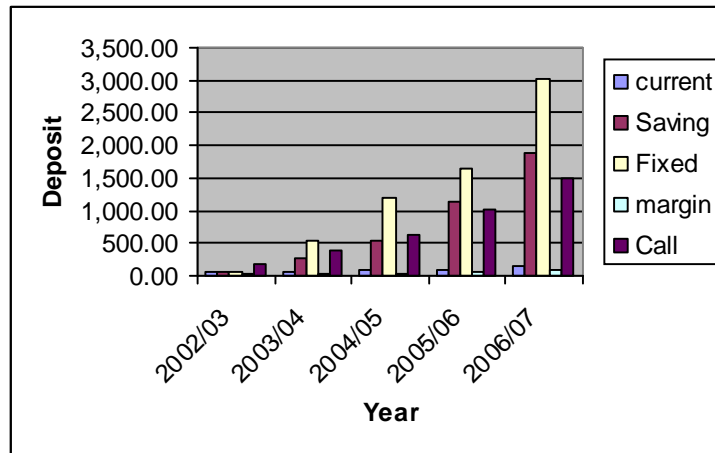
**Table no: 5**  
**Deposit composition of Siddhartha Bank**

(Rs in million)

Year	Current	Saving	Fixed	Margin	Call	others
2002/03	49.85	64.17	66.95	20.99	189.72	-
2003/04	58.79	267.64	537.19	33.57	393.37	-
2004/05	85.77	525.65	1196.51	33.08	620.91	-
2005/06	82.29	1,128.46	1632.09	45.57	1029.55	0.11
2006/07	150.80	1,881.66	3022.56	76.39	1493.26	0.39
<b>Total</b>	427.50	3,867.58	6,455.30	209.60	3,726.81	0.50



**Figure: 3**  
**Deposit Composition of Siddhartha Bank**



The above table and figure shows the deposit mix of Siddhartha Bank Ltd. It is clear from the table that all types of deposit are increasing. The saving and the fixed deposits are the major contributor of the total deposits. In the period of the five year of the study fixed deposit is greater than all the other types of deposit.

### **Comparative analysis**

From the above table is clear that both the commercial bank's main source of deposits are saving and fixed deposit accounts. It is clear that Kumari Bank is able to collect more saving deposits and Siddhartha Bank is able to collect more fixed deposit. The table also shows that the all the types of deposit are increasing in both the banks. The portion of interest free deposit i.e., current deposit is greater of Kumari Bank than Siddhartha Bank.

### 4.2.3 Analysis of Current Deposit

#### A) Analysis of Kumari Bank Ltd

**Table no: 6**

#### **Current Deposit of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Current</b>	<b>Change %</b>	<b>Total Deposit</b>	<b>Ratio</b>
2002/03	135.08	-	2513.14	5.37
2003/04	251.05	85.85	4,807.94	5.22
2004/05	279.36	11.28	6,268.95	4.46
2005/06	350.82	25.58	7,768.96	4.52
2006/07	403.80	15.10	10,557.42	3.82
<b>Total</b>	1,420.11		31916.41	
				Average=4.68

The above table shows the current deposit position of Kumari Bank Limited. The bank of able to increase the current deposit every year. It has increased by 85 % in the year 2003/04 ,by 11.28 % in 2004/05, by 25.58 % in 2005/06 and by 15.10 % in 2006/07. Also the current deposit represents 5.37% of the total deposit in the year 2002/03, 5.22% in2003/04, 4.46% in 2004/05, 4.52% in 2005/06 and 3.82 % in 2006/07. This table shows that the current deposit's share in the total deposit is decreasing although the amount of total deposit is increasing. The current deposit is 4.68 % of the total deposit in average for the study period. It is also clear that the current deposit is increasing in the decreasing trend.

## B) Analysis of Siddhartha Bank Ltd

Table no: 7

### Current Deposit of Siddhartha Bank

(Rs in million)				
Year	Current	Change %	Total Deposit	Ratio
2002/03	49.85	-	391.68	12.73
2003/04	58.79	17.93	1,290.56	4.56
2004/05	85.77	45.89	2,461.92	3.48
2005/06	82.29	4.06	3,918.07	2.10
2006/07	150.80	83.25	6,625.06	2.28
<b>Total</b>	427.50		14687.29	
Average=5.03				

The above table shows the current deposit position of Siddhartha Bank Limited. The bank of able to increase the current deposit every year. It has increased by 17.93 % in the year 2003/04 ,by 45.89 % in 2004/05, by 4.06 % in 2005/06 and by 83.25 % in 2006/07. Also the current deposit represents 12.73% of the total deposit in the year 2002/03, 4.56% in2003/04, 3.48% in 2004/05, 2.10% in 2005/06 and 2.28% in 2006/07. This table shows that the position of current deposit is very different in different years. The average percent of current deposit is 5.03% of the total deposit.

#### Comparative analysis

From the above presentation of the data it is clear that SBL is able to collect more current deposit than KBL in the study period. The average current deposit in the five year period of KBL is4.68 % whereas it is 5.03 % for SBL, but the ratio of SBL is decreasing sharply which shows that the percentage of interest free deposit is decreasing

#### 4.2.4 Analysis of Saving Deposit

##### A) Analysis of Kumari Bank Limited

**Table no: 8**

#### **Saving Deposit of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Saving</b>	<b>Change %</b>	<b>Total Deposit</b>	<b>Ratio</b>
2002/03	461.94	-	2513.14	18.38
2003/04	902.94	95.47	4,807.94	18.78
2004/05	1,515.58	67.85	6,268.95	24.18
2005/06	2,317.84	52.93	7,768.96	29.83
2006/07	4,461.70	92.49	10,557.42	42.26
<b>Total</b>	9,660.00		31,916.41	
				Average=26.69

The above table shows the saving deposits and its ratio with the total deposit. The saving deposits are the major source of deposits of KBL. The total deposit of KBL has increased by 95.47% in the 2003/04 compared to the previous year. Similarly it has increased by 67.85 % in the year 2004/05, by 52.93% in 2005/06 and by 92.49% in 2006/07. As for the ratio with the total deposit, saving deposit is 18.38 % of total deposit in 2002/03 and 42.26% in the year 2006/07. In the year 2006/07 'House Lottery Schemes' was used to collect and increase the amount of deposit. The saving deposits is 26.69 % of the total deposit in average for the study period.

## B) Analysis of Siddhartha Bank Ltd

Table no: 9

### Saving Deposit of Siddhartha Bank

(Rs in million)

Year	Saving	Change %	Total Deposit	Ratio
2002/03	64.17	-	391.68	16.38
2003/04	267.64	317.08	1,290.56	20.74
2004/05	525.65	96.40	2,461.92	21.35
2005/06	1,128.46	114.68	3,918.07	28.80
2006/07	1,881.66	66.75	6,625.06	28.40
<b>Total</b>	3,867.58		14687.29	
				Average=23.14

Saving deposit are the major sources of deposits for SBL. It is clear from the table that the saving deposits are increasing every year. The saving deposits constitutes 16.38% of the total deposit in the year 2002/03. In the next year i.e. in 2003/04 it increased by 317.08% contributing 20.47% of the total deposit. Similarly in the year 2004/05 the saving deposit increased by 96.40%, by 114.68% in 2005/06 and by 66.75 in 2006/07. Likewise the portion of saving deposit in total deposit in the year 2004/05 was 21.35%, in year 2005/06 28.80% and in the year 2006/07 it was 28.40% of the total deposit. In the average the saving deposits contributed 23.14% of the total deposit.

#### Comparative analysis

The saving deposit is one of the important component of total deposit. In this deposit also KBL is ahead of SBL. The average saving deposit of KBL is 26.69% which is greater than 23.14 % of SBL. Also the increase in the saving deposit of KBL is better than the SBL. Saving deposits are sustainable type of deposit so it can be said that the deposit of KBL is more stable than SBL.

## 4.2.5 Analysis of Fixed Deposit

### A) Analysis of Kumari Bank Limited

Table no: 10

#### Fixed deposit of Kumari Bank

(Rs in million)

Year	Fixed	Change %	Total Deposit	Ratio
2002/03	795.40	-	2513.14	31.65
2003/04	1,292.45	62.49	4,807.94	26.88
2004/05	2,302.09	78.12	6,268.95	36.72
2005/06	3,162.83	37.39	7,768.96	40.71
2006/07	2,776.48	12.22	10,557.42	26.30
<b>Total</b>	10,329.25		31916.41	
				Average=32.45

The above table shows the fixed deposit of Kumari Bank Limited for the study period. It is clear from the table that fixed deposit composite major portion of the total deposit. The percent of the fixed deposit is different in different years. Fixed deposit increased by 62.49% in the year 2003/04, by 78.12% in 2004/05, by 37.39% in 2005/06 and by 12.22% in the year 2006/07. The contribution of fixed deposit in the total deposit is 32.45% in the average of five years. The contribution of fixed deposit is maximum in the year 2005/06 which is 40.71% of the total deposit. In the year 2006/07 fixed deposit is only 26.30% of the total deposit because in that year more emphasis was given to savings accounts through house lottery schemes.

## B) Analysis of Siddhartha Bank Limited

Table no: 11

### Fixed deposit of Siddhartha Bank

(Rs in million)

Year	Fixed	Change %	Total Deposit	Ratio
2002/03	66.95	-	391.68	17.09
2003/04	537.19	702.37	1,290.56	41.62
2004/05	1196.51	122.73	2,461.92	48.60
2005/06	1632.09	36.40	3,918.07	41.66
2006/07	3022.56	85.20	6,625.06	45.62
<b>Total</b>	6,455.30		14687.29	
				Average=38.92

The ratio of fixed deposit to total deposit is increasing every year. The amount of fixed deposit is also increasing every year. The average ratio of fixed deposit for the period of five years is 38.92%

#### Comparative analysis

From the above presentation it is clear that the volume of fixed deposit in KBL is better than SBL in the terms of the volume. The total fixed deposit of KBL is over Rs.10 thousand million which is 32.45% of the total deposit in the average. In the other hand the total fixed deposit of SBL is 38.92% of the total deposit totaling to Rs.6,455.30 thousand million. It is clear that SBL has more amount of fixed deposit in its total deposit.

## 4.2.6 Analysis of Margin Deposit

### A) Analysis of Kumari Bank Limited

Table no: 12

#### Margin Deposit of Kumari Bank

(Rs in million)

Year	Margin	Change %	Total Deposit	Ratio
2002/03	27.37	-	2513.14	1.09
2003/04	61.57	124.95	4,807.94	1.28
2004/05	69.09	12.21	6,268.95	1.10
2005/06	56.72	17.90	7,768.96	0.73
2006/07	87.73	54.67	10,557.42	0.83
<b>Total</b>	302.48		31916.41	
				Average=1.01

The table 12 shows the figures of margin deposit of KBL for the study period. The table shows that the amount of margin deposits is increasing in the study period. In the year 2003/04 is increased by 124.95% compared to previous year, by 12.21 % in 2004/05, by 17.90% in 2005/06, by 54.67% in 2006/07. but the ratio of margin deposit to total deposit is not so big. In the year 2002/03 margin deposit constituted 1.09 % of the total deposit, 1.28% in 2003/04, and 1.10 % in 2004/05. In the year it was 0.73% of total deposit and 0.83% in the year 2006/07 and in the average margin deposit was 1.01 % of the total deposit for the study period. Margin deposit are cost free deposit in which bank does not have to pay interest in it.



## B)Analysis of Siddhartha Bank Limited

Table no: 13

### Margin Deposit of Siddhartha Bank

(Rs in million)

Year	Margin	Change %	Total Deposit	Ratio
2002/03	20.99	-	391.68	5.36
2003/04	33.57	59.93	1,290.56	2.60
2004/05	33.08	1.46	2,461.92	1.34
2005/06	45.57	37.76	3,918.07	1.16
2006/07	76.39	67.63	6,625.06	1.15
<b>Total</b>	209.60		14687.29	
				Average=2.32

Above table shows the margin deposit of SBL which is interest free deposit. The table shows that the margin deposit of the bank is increasing yearly. The total margin deposit for the study period is Rs209.60 million out of total deposit of Rs31916.41 million. The margin deposit has increased by 59.93% in the year 2003/04 compared to 2002/03. Consecutively the deposit has increased by 1.46% in 2005/05, by 37.76% in 2005/06 and by 67.63% in the year 2006/07. The ratio of the margin deposit to total deposit 5.36% in the year 2002/03 and 1.15% in the last year of the study i.e.2006/07. In the average margin deposit contributed 2.32% of the total deposit for the study period.

#### Comparative analysis

Margin deposit are the source of interest free deposit for the banks. In the context of the KBL and SBL both banks are able to collect considerable amount of the margin deposit. The average margin deposit of KBL is 1.01% of the total deposit whereas it is2.32.% for SBL. The amount of margin deposit shows that banks are able to collect interest free

deposit while performing other activities. The amount of interest free deposit helps to control the cost of deposit.

#### 4.2.7 Analysis of Call Deposit

##### A) Analysis of Kumari Bank Limited

**Table no: 14**

#### **Call Deposit of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Call</b>	<b>Change %</b>	<b>Total Deposit</b>	<b>Ratio</b>
2002/03	1093.35	-	2513.14	43.51
2003/04	2,299.94	110.36	4,807.94	47.84
2004/05	2,102.84	8.57	6,268.95	33.54
2005/06	1,880.74	10.56	7,768.96	24.21
2006/07	2,827.70	50.35	10,557.42	26.78
<b>Total</b>	10,204.57		31916.41	
				Average=35.18

The table 14 shows the position of the call deposit of KBL which is type of deposit where the amount of deposit by individual is large and the percent of interest depends upon the amount of deposit and reputation of depositor. The table shows that call deposit represents 35.18% of the total deposit in average for the period of five years. In the year 2002/03 it was 43.51 % of the total deposit, 47.84% in 2003/04, 33.54% in 2004/05, 24.21% in 2005/06 and 26.78 % in the year 2006/07. Similarly the amount of call deposit is increasing every year. The amount of call deposit increased by 110.36% in the year 2003/04 and by 50.36% in the final year of the study i.e. in 2006/07.

## B) Analysis of Siddhartha Bank Limited

Table no: 15

### Call Deposit of Siddhartha Bank

(Rs in million)

Year	Call	Change %	Total Deposit	Ratio
2002/03	189.72	-	391.68	48.44
2003/04	393.37	107.34	1,290.56	30.48
2004/05	620.91	57.84	2,461.92	25.22
2005/06	1029.55	65.81	3,918.07	26.28
2006/07	1493.26	45.04	6,625.06	22.54
<b>Total</b>	3,726.81		14687.29	
				Average=30.59

The above table 4.14 shows the call deposits of SBL for the study period. The total call deposit of SBL for the study period is Rs.3726.81 million which is 30.59% of the total deposit in the average of five year period. Call deposit represented different percent of the total deposit in the five year ranging from 48.44% in the year 2002/03 to 22.54% in the year 2006/07. The call deposit of SBL has increased by 107.37% in the year 2003/04 compared to previous year, by 57.84% in 2004/05, by 65.81% in 2005/06 and by 45.04% in the year 2006/07.

#### Comparative analysis

Call deposit are the source for collecting large amount of deposit from a single depositor. Since this deposit bear the feature of both the saving and current deposit, banks has to pay interest and utilize the funds in profitable manner. Among the both the banks of the study KBL has larger volume of call deposit compared to SBL. This also shows that the bigger depositor are attracted towards KBL instead of SBL.

### **4.3 Analysis of Loan and Advances**

Deposit mobilization is one of the key function of commercial banks. Providing loan and advances is one of the important tools of deposit mobilization. without utilizing the deposit in the form of loans no commercial banks can survive. It is the primary function of the commercial banks. Loans and advances are the important source of generating income for commercial banks. The existence of banks depends upon the efficient loan and its recovery.

#### **4.3.1 Analysis of Total Loan (before provision)**

Total loan is the actual amount of credit created by the commercial banks. It is the actual loan of the bank in which the amount of provision has not been adjusted.

#### **A) Analysis of Kumari Bank Limited**

**Table no: 16**

#### **Total Loan of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Total Loan</b>	<b>Change %</b>
2002/03	2,137.58	-
2003/04	3,697.98	73.00
2004/05	5,681.01	53.62
2005/06	7,007.78	23.35
2006/07	9,062.43	29.32
<b>Total</b>	<b>27,586.78</b>	

Above table 16 presents the total loan of KBL for the period of the study. The total loan provided in the period of the study is Rs.27, 586.78 million. The table shows the total loan granted by KBL in the study period through various types of loan types like business loan and personal loan. The total loan amount of KBL has increased every year. In the year 2002/03 it was Rs 2,137.58 million and was Rs.9,062.43 million in the year 2006/07.

The amount of total loan has increased by 73% in 2003/04, by 53.62% in 2004/05 by 23.35% in 2005/06 and by 29.32% in 2006/07 compared to the previous year.

## **B) Analysis of Siddhartha Bank Limited**

**Table no: 17**

### **Total loan of Siddhartha Bank**

(Rs in million)		
<b>Year</b>	<b>Total Loan</b>	<b>Change %</b>
2002/03	629.02	-
2003/04	1567.83	149.25
2004/05	2637.93	68.25
2005/06	3869.27	46.68
2006/07	6319.73	63.33
<b>Total</b>	<b>15,023.78</b>	

From the above table it is clear that SBL is able to increase the total credit every year. The total loan amount for the study period is over Rs.15000 million. The total loan amount in the year 2002/03 is Rs600 million. In the year 2003/04 it increased by 149.25% amounting to Rs.1567.83 million. The loan has increased by 68.25% in the year 2004/05, by 46.68% in the year 2005/06 and by 63.33% in the year 2006/07. The ratio shows that the total loan is in the increasing trend.

### **Comparative analysis:**

The total loan of both the banks are increasing every year. In terms of the amount if the total loan amount KBL has larger volume compared to SBL. But the percent in the change of total loan is greater of SBL than KBL. This shows that deposit mobilization of SBL is better in loans and advances.

### 4.3.2 Analysis of Net Loan

Net loan is the amount of total loan after deducting the provision from it.

#### A) Analysis of Kumari Bank Limited

**Table no: 18**

#### **Net loan of Kumari Bank**

(Rs in million)		
<b>Year</b>	<b>Net Loan</b>	<b>Change %</b>
2002/03	2,105.74	-
2003/04	3,649.01	73.29
2004/05	5,590.93	53.22
2005/06	6,891.86	23.27
2006/07	8,929.01	29.56
<b>Total</b>	<b>27,166.55</b>	

Net loan is the loan amount of the commercial banks after deducting the statutory amount of the provisioning. The net loan amount is almost equal to the total loan which shows that the amount of provisioning is very low which in turn indicates the quality of the total loan.

#### B) Analysis of Siddhartha Bank Limited

**Table no: 19**

#### **Net loan of Siddhartha Bank**

(Rs in million)		
<b>Year</b>	<b>Net Loan</b>	<b>Change %</b>
2002/03	622.73	-
2003/04	1543.77	147.90
2004/05	2570.78	66.53
2005/06	3789.12	47.39
2006/07	6222.59	64.22
<b>Total</b>	<b>14,748.99</b>	

Net loan is the loan amount of the commercial banks after deducting the statutory amount of the provisioning. The net loan of the KBL shows similarity with the total loan. The net loan amount is almost equal to the total loan which shows that the amount of provisioning is very low which in turn indicates the quality of the total loan.

#### 4.3.3 Analysis of Composition of Loan on the basis of performance

Loan can be classified into performing loan and non performing loan on the basis of their of the repayment of principal and the interest amount.

##### A) Analysis of Kumari Bank Limited

**Table no: 20**

#### **Composition of loan of Kumari Bank**

(Rs in million)

Year	Performing Loan		Non Performing Loan		
	Pass	Restructured	Sub Standard	Doubtful	Loss
2002/03	2,101.26	-	33.46	1.78	1.07
2003/04	3,669.79	-	14.01	10.89	3.28
2004/05	5,627.02	-	29.76	3.32	20.89
2005/06	6,876.56	66.86	12.23	32.74	19.37
2006/07	8,957.70	38.61	10.37	38.63	17.10
<b>Total</b>	<b>27,232.33</b>	<b>105.47</b>	<b>99.83</b>	<b>87.36</b>	<b>61.71</b>

The above table 20 shows the composition of loan in terms of their of performance. Is clear from the table that majority of the loan of Kumari Bank is Performing loan with again major portion being the pass loan. The portion of the non performing loan is very low. This shows that KBL is able to lend in better sectors and is able to collect back its loan. The loss loan is Rs.61.71million which is very low compared to the total pass loan of Rs.27,232.33 million.

## B) Analysis of Siddhartha Bank Limited

Table no: 21

### Composition of loan of Siddhartha Bank

(Rs in million)

Year	Performing Loan		Non Performing Loan		
	Pass	Restructured	Sub Standard	Doubtful	Loss
2002/03	629.02	-	-	-	-
2003/04	1,542.60	-	24.01	0.49	0.72
2004/05	2,567.00	-	29.13	17.95	20.83
2005/06	3,787.20	48.49	4.46	2.69	26.41
2006/07	6,251.04	47.13	-	-	21.52
<b>Total</b>	<b>14,776.86</b>	<b>95.62</b>	<b>0.02</b>	<b>21.13</b>	<b>69.48</b>

The loan composition of SBL shows that the amount of the performing loan dominates the total loan. In the performing loan also majority of the loan is pass loan, the amount of restructured is very negligible compared to pass loan. Likewise the amount of performing loan is also very negligible. In the year 2002/03 SBL has 100% of pass loan.

#### Comparative analysis:

It is clear from the above table that both the commercial banks are able to mobilize deposits in the good sectors in the form of loan and advances. Both the banks are able to maintain the amount of performing loan. But in the case of non performing loan KBL has lower amount of it compared to that of SBL. This might be due to the difference in the amount of the total loan as KBL has greater loan and consequently greater non performing loan. But the loss loan of SBL is greater than that of KBL which shows the greater loss in loan of SBL. SBL has Rs. 69.48million of loss loan which is greater than KBL which is only Rs.61.71million.



#### 4.3.4 Analysis of Performing Loan to Total Loan

Those credits that have not crossed the time schedule of repayment and are within 3 months delay of maturity date is known as performing credit.

##### A) Analysis of Kumari Bank Limited

Table no: 22

#### Performing Loan of Kumari Bank

(Rs in million)

Year	Performing Loan	Change %	Total Loan	Ratio
2002/03	2,101.26	-	2,137.58	98.30
2003/04	3,669.79	74.65	3,697.98	99.24
2004/05	5,627.02	53.33	5,681.01	99.05
2005/06	6,943.42	23.39	7,007.78	99.08
2006/07	8,996.31	29.57	9,062.43	99.27
<b>Total</b>			27,586.78	
				Average=98.99

The above table shows the performing loan of KBL. It is clear from the table that performing loan makes up majority of the loan of KBL. In the year 2002/03 the performing loan is 98.30% of the total loan, and 99.27 in the final year of the study i.e. 2006/07. In the average the performing loan is 98.99% of the total loan.

##### B) Analysis of Siddhartha Bank Limited

Table no:23

#### Performing Loan of Siddhartha Ban

(Rs in million)

Year	Performing Loan	Change %	Total Loan	Ratio
2002/03	629.02	-	629.02	100.00
2003/04	1,542.60	145.24	1567.83	98.39
2004/05	2,567.00	66.41	2637.93	97.31
2005/06	3,835.69	49.42	3869.27	99.13
2006/07	6,298.17	64.20	6319.73	99.66
<b>Total</b>			15,023.78	
				Average=98.89

The above table shows the performing loan of SBL. It is clear from the table that performing loan makes up majority of the loan of KBL. In the year 2002/03 the performing loan is 100% of the total loan, and 99.13% in the final year of the study i.e. 2006/07. In the average the performing loan is 98.89% of the total loan.

**Comparative analysis:**

Performing loans of both the banks are in good volume. Almost 99% of the total loan of the total loan of both the banks are performing loan. This shows that the loan collection and its repayment are done timely and there is less problem of loan turning into non performing loan. But the ratio shows slight better ratio of KBL than that of SBL.

**4.3.5 Analysis of Non Performing Loan to Total Loan**

Non performing loan are those loan which are already crossed the repayment time schedule and are delay of maturity date. Non performing loans are classified into three categories, sub standard, doubtful and bad loans. Sub standard loan are those loan which are already crossed the repayment time schedule and are within 3-6 months delay of maturity date. Likewise, within 6-12 months delay from the time to be recovered are classified as doubtful loan. Those loans, which are not recovered yet after 1 year from maturity date, are known as bad loan. The certain amount of provision is to made for the non performing loan out of the total profit. The provisions are 25%, 50% and 100% respectively for sub standard loan, doubtful debt and bad loan.

### A) Analysis of Kumari Bank Limited

Table no: 24

#### Non performing loan of Kumari Bank

(Rs in million)

Year	Non Performing Loan	Change %	Total Loan	Ratio
2002/03	36.31	-	2,137.58	1.70
2003/04	28.18	22.39	3,697.98	0.76
2004/05	53.97	91.52	5,681.01	0.95
2005/06	64.34	19.21	7,007.78	0.92
2006/07	66.10	2.74	9,062.43	0.73
<b>Total</b>			27,586.78	
Average =1.01				

The above table shows the non performing loan of KBL. It is clear from the table that non performing loan of KBL is very low. In the year 2002/03 the non performing loan is only 1.70% of the total loan, and has decreased in the following years to 0.73% in the final year of the study i.e. 2006/07. In the average the non performing loan is 1.01% of the total loan.

### B) Analysis of Siddhartha Bank Limited

Table no: 25

#### Non performing loan of Siddhartha bank

(Rs in million)

Year	Non Performing Loan	Change %	Total Loan	Ratio
2002/03	-	-	629.02	-
2003/04	25.22	-	1567.83	1.61
2004/05	67.91	169.27	2637.93	2.57
2005/06	33.56	50.58	3869.27	0.87
2006/07	21.52	35.88	6319.73	0.34
<b>Total</b>			15,023.78	
Average=1.07				

The above table shows the non performing loan of SBL. SBL does not have the non performing loan in the year 2002/03, but it has increased in the next two years to maximum of 2.57% of the total loan. After 2004/05 the non performing loan has decreased amounting to 1.07% in the average.

#### **Comparative analysis:**

The non performing loan of both the banks is very low compared to the total loan. But in comparison the overall non performing loan of KBL is less than that of SBL. This shows that KBL is able to collect the principal and interest in the due time.

#### **4.3.6 Analysis of provisioning**

Future is uncertain. Existing pass may become bad loan in the future so, to avoid that risks, banks make provision from the certain amount of profit. As per the rules of NRB, the loan loss provision is made as per the nature of loans that are as follows.

#### **A) Analysis of Kumari Bank Limited**

**Table no: 26**

#### **Total provision of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Total Provision</b>	<b>Change %</b>	<b>Total Loan</b>	<b>Ratio</b>
2002/03	31.85	-	2,137.58	1.49
2003/04	48.97	53.75	3,697.98	1.32
2004/05	90.08	83.95	5,681.01	1.59
2005/06	115.93	28.70	7,007.78	1.65
2006/07	133.42	15.09	9,062.43	1.47
<b>Total</b>			27,586.78	
				Average=1.51

In Above table it presents the loan loss provision to total loan of Kumari Bank for the study period of 2002/03 to 2006/07. The ratio of the total provision to total loan is 1.49% in the beginning of the study period and 1.47% in the end of the study period. In the

average it is 1.51% of the total loan. From the above table it is clear total provision is increasing every year which shows that the non performing loan is increasing with the increase in the total loan.

## B) Analysis of Siddhartha Bank Limited

**Table no: 27**

### **Total provision of Siddhartha Bank**

(Rs in million)

<b>Year</b>	<b>Total Provision</b>	<b>Change %</b>	<b>Total Loan</b>	<b>Ratio</b>
2002/03	6.29	-	629.02	1.00
2003/04	24.05	282.35	1567.83	1.53
2004/05	64.15	166.74	2637.93	2.43
2005/06	80.14	24.93	3869.27	2.07
2006/07	97.14	21.21	6319.73	1.54
<b>Total</b>			15,023.78	
				Average=1.71

In Above table it presents the loan loss provision to total loan of Siddhartha Bank for the study period of 2002/03 to 2006/07. The total provision in the year 2002/03 is 1% which shows that in that year bank only had performing loans. The total provision and the total loan has increased in the years after 2002/03. Likewise the ratio of total provision over total loan has also increased. In the average the total provision is 1.71% of the total loan

### **Comparative analysis:**

The loan loss provisions of both the banks are increasing which shows that the non performing loans of both the banks are increasing. The average provision of both the banks is below 2% of the total loans. But the provision percent of SBL is greater than that of SBL which shows that SBL has higher percent of non performing loans

## **4.4 Analysis of Investment**

Investment is the employment of funds with the aim of achieving additional income or growth in value. An investment is a commitment of funds made in the expectation of some positive rate of return.

### **4.4.1 Analysis of Total Investment**

#### **A) Analysis of Kumari Bank Limited**

**Table no: 28**

**Total investment of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Total Investment</b>	<b>Change %</b>
2002/03	423.54	-
2003/04	983.50	132.21
2004/05	1,190.27	21.02
2005/06	1,394.94	17.20
2006/07	1,678.41	20.32
<b>Total</b>	<b>5,670.66</b>	

The table 28 shows the investment position of Kumari Bank. The total investment of Kumari Bank in the year 2002/03 was Rs.423.54 million which increased by 132.21% in the year 2003/04. The total investment has increased by 21.02 % in the year 2004/05, by 17.20% in the year 2005/06 and by 20.32% in the year 2006/07. The figure shows the gradual increase in the total investment of the bank amounting to total of Rs.5670.66 million in the period of the study. Although the amount of investment is increasing the rate of increase is very flutuative.

## B) Analysis of Siddhartha Bank Limited

Table no: 29

### Total Investment of Siddhartha Bank Limited

(Rs in million)

Year	Total Investment	Change %
2002/03	3.77	
2003/04	42.05	1,015.38
2004/05	286.62	581.62
2005/06	650.97	127.12
2006/07	865.18	32.91
<b>Total</b>	<b>1,848.59</b>	

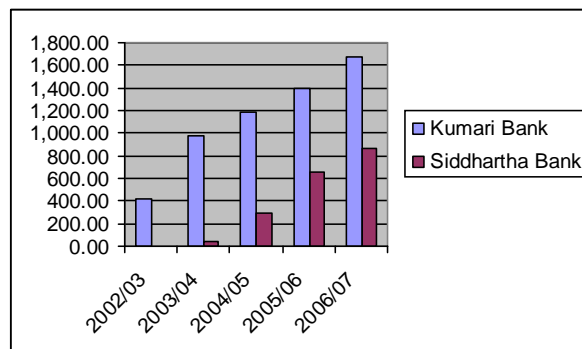
The above table presents the investment position of Siddhartha Bank for the period of the study. It is clear from the table that the bank is able to increase the investment amount from Rs.3.77 million in the year 2002/03 to Rs.42.05 million in the year 2003/04. In total the investment amounts to Rs.1848.59million for the period of five years.

#### Comparative analysis:

The comparative analysis can be presented from the figure below:

Figure 4

### Total Investment of Kumari Bank and Siddhartha Bank



The figure no 4 clearly shows that the investment of KBL is greater than that of SBL. The amounts of investment of both the banks are increasing every year. The percent increase

in the total amount of investment of SBL is greater than that of SBL but in total the investment of KBL is greater. This figures shows that both the banks are able to mobilize their deposits in the form of investment.

#### 4.4.2 Analysis of Composition of Investment

##### A) Analysis of Kumari Bank Limited

**Table no: 30**

#### **Investment composition of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Govt Treasury Bond</b>	<b>Govt Saving Bond</b>	<b>Other Govt Securities</b>	<b>Foreign Banks</b>	<b>Local Licensed Institution</b>	<b>Corporate Shares</b>	<b>Development Bonds</b>
2002/03	232.44	-	-	37.52	150.00	-	3.18
2003/04	592.97	-	-	81.89	300.00	-	8.63
2004/05	1,061.35	-	-	69.92	-	0.35	58.63
2005/06	1,055.68	-	58.63	280.27	-	0.35	-
2006/07	1,242.41	-	55.45	380.19	-	0.35	-
<b>Total</b>	<b>4,184.85</b>	<b>-</b>	<b>114.08</b>	<b>849.79</b>	<b>450.00</b>	<b>1.05</b>	<b>70.44</b>

The above table 4.28 shows the investment of KBL in different sectors. The above table shows that majority of investment are done in government securities and in foreign banks. Out of the total investment over Rs.4000million is investment in the government securities, after that foreign banks holds more than Rs.800million of the total investment. The role of other forms of investment is very negligible but still it cannot be ignored.



## B) Analysis of Siddhartha Bank

Table no:31

### Investment composition of Siddhartha Bank

(Rs in million)

Year	Govt Treasury Bond	Govt Saving Bond	Other Govt Securities	Foreign Banks	Local Licensed Institution	Corporate Shares	Development Bonds
2002/03	-	-	-	-	-	-	3.77
2003/04	38.27	-	-	-	-	-	3.77
2004/05	272.49	-	-	-	10.00	0.35	3.77
2005/06	394.58	3.77	-	112.26	140.00	0.35	-
2006/07	621.97	-	3.77	29.08	195.00	15.65	-
<b>Total</b>	<b>1,327.31</b>	<b>3.77</b>	<b>3.77</b>	<b>141.34</b>	<b>345.00</b>	<b>16.35</b>	<b>11.31</b>

The above table 31 shows the investment of SBL in different sectors. The above table shows that the investment of SBL is in various sectors. Although the investment was in the development bonds in the early years the investment has been diversified in the various other sectors also. But still majority of the investment are done in the government securities.

#### Comparative analysis:

The table shows the investment pattern of both the banks. The figures shows that majority of the portion of the investment is done in the government securities which shows that commercial banks are risk averters in terms of investment. The forms of investment like in shares of other corporate entity are not involved in the investment process.

#### 4.4.3 Analysis of Other Investment (Money at Call and Short Notices)

Besides investing in financial instruments commercial banks also invests in other forms like investing money to other financial institution for the short period of time and which can be recalled whenever required. The analysis below shows the investment of selected banks in money at call and short notices.

##### A) Analysis of Kumari Bank Limited

**Table no: 32**

#### **Total money at call and short notices of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Money At Call and Short Notices</b>	<b>Change %</b>
2002/03	-	-
2003/04	-	-
2004/05	90.00	-
2005/06	145.00	61.11
2006/07	372.00	156.55
<b>Total</b>	607.00	

The amount of investment in money at call is not very big for Kumari Bank. There was no such investment for the first two years of the study period. KBL started to invest from the year 2004/05 with the amount of Rs.90million which was raised to Rs.145million in 2005/06 and to Rs.372 million in the year 2006/07. The total investment for the period is Rs.607million. The rate of change in such type of investment is very high. In the year 2005/06 the investment in money at call increased by 61.11% and by 156.55% in the year 2006/07. Although KBL started late in investing in money at call and short notices the amount is very noticeable.

## B) Analysis of Siddhartha Bank Limited

Table no: 33

### Total money at call and short notices of Siddhartha Bank

(Rs in million)

Year	Money At Call and Short Notices	Change %
2002/03	102.07	-
2003/04	174.83	71.28
2004/05	22.47	87.15
2005/06	100.00	345.04
2006/07	229.44	129.44
<b>Total</b>	<b>628.81</b>	

The above table 33 shows the investment of SBL in money at call and short notices. Siddhartha Bank has invested Rs.102million in the year 2002/03, it increased by 71.28% in the year 2003/04. The investment has gradually increased every year amounting total of Rs.628million in the period of the study.

#### **Comparative analysis:**

The table 4.30 and 4.31 clearly shows the investment of both banks in money at call. KBL has invested Rs.607 million whereas SBL has invested Rs.628million. This shows that SBL is more liberal in investing in other forms of investment which are of shorter period and easy to recall.

### **4.5 Analysis of Cash and Bank Balances**

Besides mobilizing the funds in the different sectors like loan and investment commercial banks, has to maintain certain level of liquid cash in the form of cash in the vault, and bank balances in Nepal Rastra Bank and other financial institution to meet the obligation of the bank.

## A) Analysis of Kumari Bank Limited

Table no:34

### Total cash and bank balances of Kumari Bank

(Rs in million)

Year	Cash Balance	Balance with NRB	Balance with Other institution	Total	% Change in Total
2002/03	40.80	224.02	26.87	291.69	-
2003/04	68.47	524.63	92.37	685.47	135.00
2004/05	111.24	219.83	112.29	443.36	35.32
2005/06	135.79	210.55	43.28	389.62	12.12
2006/07	190.74	384.84	96.52	672.10	72.50
<b>Total</b>	547.04	1,563.87	371.33	2481.42	

The above table depicted the total cash and bank balances of Kumari Bank. In the year 2002/03 the total liquid cash was Rs.291.69million comprising of Rs.40million of pure cash balance, Rs.224.02million balance with NRB and Rs.26.87 million with other banks. The total liquidity position of the banks has increased every year. Here, the cash & bank balance of Kumari bank has fluctuated every year.

## B) Analysis of Siddhartha Bank Limited

Table no: 35

### Total cash and bank balances of Siddhartha Bank

(Rs in million)

Year	Cash Balance	Balance with NRB	Balance with Other institution	Total	% Change in Total
2002/03	9.43	4.61	13.03	27.07	-
2003/04	18.21	35.41	18.21	71.83	165.35
2004/05	33.45	45.63	51.63	130.71	81.97
2005/06	64.97	48.83	2.13	115.93	11.31
2006/07	130.44	380.56	6.22	517.22	346.15
<b>Total</b>	256.50	515.04	91.22	862.76	

According to the table 4.33 Siddhartha bank has been able to maintain fair amount of liquid assets. The total balances in the year 2002/03 is Rs.27million which has increased by 165.35% in the year 2003/04 amounting to Rs.71million. The total balances has increased by 81.97% in the year 2004/05, by 11.31% in the year 2005/06 and by 346.15% in the year 2006/07.

### **Comparative analysis:**

The above analysis shows that KBL has better liquidity position than SBL. The total cash and bank balance of KBL is Rs.2481.42million and Rs.862.76 million of SBL for the study period.

## **4.6 Analysis of Ratio**

Ratio analysis is one of the tools of financial analysis. Under ratio analysis, calculation of various ratios including liquidity, profitability, and asset-management ratios have been calculated and interpreted. Specifically, the following groups of ratios have been selected for analysis:

### **4.6.1 Total Loan and advances to Total Deposit Ratio**

Commercial banks utilize the outsider's fund i.e. deposit for profit generation purpose.

Loan & advances to total deposit ratio shows whether the banks are successful to utilize the total deposits for the profit generating purpose through the loan & advances.

Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice-versa.

Although higher ratio is the desirable situation for the commercial banks they cannot invest 100% of the total deposit in the form of loans and advances due the liquidity and the regulations of NRB.

## A) Analysis of Kumari Bank Limited

**Table no: 36**

### **Total loan to total deposit ratio of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Total Loan</b>	<b>Total Deposit</b>	<b>Ratio</b>
2002/03	2,137.58	2,513.14	85.06
2003/04	3,697.98	4,807.94	76.91
2004/05	5,681.01	6,268.95	90.62
2005/06	7,007.78	7,768.96	90.20
2006/07	9,062.43	10,557.42	85.84
Average:85.73			

The total loan to total deposit ratio of KBL is 85.06% in 2002/03, 76.91% in 2003/04, 90.62% in 2004/05, 90.20% in 2005/06 and 85.84% in the year 2006/07. The average ratio for the study period is 85.73%. This shows that KBL is able to mobilize its fund in the form of loan and advances efficiently.

## B) Analysis of Siddhartha Bank Limited

**Table no: 37**

### **Total loan to total deposit ratio of Siddhatha Bank**

(Rs in million)

<b>Year</b>	<b>Total Loan</b>	<b>Total Deposit</b>	<b>Ratio</b>
2002/03	629.02	391.68	160.60
2003/04	1567.83	1,291.31	121.41
2004/05	2637.93	2,461.92	107.15
2005/06	3869.27	3,918.08	98.75
2006/07	6319.73	6,625.08	95.39
Average:116.66			

The total loan to total deposit ratio of SBL for the study period in average is 116.66%.

The ratio for the first three years is over 100% which shows that SBL invested in loans

and advances from other sources as well along with the deposit funds.

### **Comparative analysis:**

The ratio of KBL shows that it has efficiently mobilized its deposits on loan and advances. The ratio is around 85% in the average. The ratio of SBL shows that it has invested more than its deposits in loan and advances which is not good from the point of view of the depositor.

### **4.6.2 Total Investment to Total Deposit Ratio**

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial and non-financial companies. Effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa.

#### **A) Analysis of Kumari Bank Limited**

**Table no: 38**

#### **Total investment to total deposit ratio of Kumari Bank**

**(Rs in million)**

<b>Year</b>	<b>Total Investment</b>	<b>Total Deposit</b>	<b>Ratio</b>
2002/03	423.54	2,513.14	16.85
2003/04	983.5	4,807.94	20.46
2004/05	1,190.27	6,268.95	18.99
2005/06	1,394.94	7,768.96	17.96
2006/07	1,678.41	10,557.42	15.90
			Average:18.03

The table 38 shows the investment ration to total deposit of KBL. The ratio of investment ranges from 16.85%, 20.46%, 18.99%, 17.96%, and 15.90% in the fiscal year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 respectively. The ratio is constant through out the

study period except for the year 2003/04. This shows that the growth rate in the investment and the total deposit are almost in the same proportion. The ratio of the investment in the year 2003/04 is slightly higher which is due the increase in the total deposit also. The average ratio of total investment to total deposit is 18.03%. for the study period.

## **B) Analysis of Siddhartha Bank Limited**

**Table no: 39**

### **Total investment to total deposit ratio of Siddhatha Bank**

(Rs in million)			
<b>Year</b>	<b>Total Investment</b>	<b>Total Deposit</b>	<b>Ratio</b>
2002/03	3.77	391.68	0.96
2003/04	42.05	1,291.31	3.26
2004/05	286.62	2,461.92	11.64
2005/06	650.97	3,918.08	16.61
2006/07	865.18	6,625.08	13.06
			Average:9.10

The above table shows the investment ratio to total deposit of SBL. The ratio were 0.96%, 3.26%, 11.64%, 16.61%,13.03% in the fiscal year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 respectively. The shows that the ratio is gradually increasing every year, which shows that SBL is opening up in the sector of investment. The average ratio for the period is 9.10% which is lower than the ratio for the last three years.

### **Comparative analysis:**

The table 4.36 and 4.37 shows the total investment to total deposit ratio of both the concern bank which helps to analyze the investment efficiency of both the banks. In comparison, KBL has higher average ratio of total investment to total deposit rather than SBL over the study period. It indicated that KBL has been able to utilize its total deposits



as investment in other companies share, debenture as well as government's treasury bill rather than SBL. It is also clear that KBL is more open towards investment rather than SBL.

#### **4.6.3 Total Other Investment (Money at Call) to Total Deposit Ratio**

Besides investing in financial instruments commercial banks also invests in other forms like investing money to other financial institution for the short period of time and which can be recalled whenever required.

#### **A) Analysis of Kumari Bank Limited**

**Table no: 40**

#### **Total other investment to total deposit ratio of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Money at Call and Short Notices</b>	<b>Total Deposit</b>	<b>Ratio</b>
2002/03	-	2,513.14	-
2003/04	-	4,807.94	-
2004/05	90	6,268.95	1.44
2005/06	145	7,768.96	1.87
2006/07	372	10,557.42	3.52
			Average:1.37

The above table represents the investment of KBL in money at call and short notices. KBL has not invested in such type of investment for the early two years of the study period, the bank has started to invest from the year 2004/05 with the 1.44% of the total deposit. The ratio of such investment total deposit was 1.87% in the year 2005/06 and 3.52% in the year 2006/07. The average ratio for the study period is 1.37% of the total deposit.

## B) Analysis of Siddhartha Bank Limited

Table no: 41

### Total other investment to total deposit ratio of Siddhatha Bank

(Rs in million)

Year	Money at Call and Short Notices	Total Deposit	Ratio
2002/03	102.07	391.68	26.06
2003/04	174.83	1,291.31	13.54
2004/05	22.47	2,461.92	0.91
2005/06	100.00	3,918.08	2.55
2006/07	229.44	6,625.08	3.46
			Average:9.30

The table 41 shows the investment of SBL in money at call and short notices. It is clear from the table that SBL has invested larger portion in money at call. The ratio to total deposit was 26.06% in the year 2002/03, 1.54% in the year 2003/04, 0.91% in the year 2004/05, 2.55% in the year 2005/06 and 3.46% in the year 2006/07. The ration of such investment over total deposit has decreased compared to the early years of the study period.

### Comparative analysis

Above analysis shows that the SBL has more investment in money at call than KBL. This shows that KBL is more efficient in investing its funds than SBL, and SBL is interested in short term investment which mature very quickly and income is earned frequently rather than investing it for longer period. But from the point of investment bank should invest in longer term investment for better income. The average ratio for the study period of SBL is greater than KBL.

#### 4.6.4 Total Cash and Bank Balances to Total Deposit Ratio

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable.

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice-versa.

##### A) Analysis of Kumari Bank Limited

Table no: 42

#### Total cash and bank to total deposit ratio of Kumari Bank

(Rs in million)

Year	Cash and Bank Balances	Total Deposit	Ratio
2002/03	291.69	2,513.14	11.61
2003/04	685.47	4,807.94	14.26
2004/05	443.36	6,268.95	7.07
2005/06	389.62	7,768.96	5.02
2006/07	672.1	10,557.42	6.37
			Average:8.86

The above table represents the liquidity position of KBL. The ratio cash and bank balances to total deposit of KBL was 11.61% in the year 2002/03, 14.26% in the year 2003/04, 7.07% in the year 2004/05, 5.02% in the year 2005/06, and 6.37 % in the year 2006/07. This shows that KBL has maintained sufficient amount of liquidity. The average ratio for the study period is 8.86% of the total deposit.

## B) Analysis of Siddhartha Bank Limited

Table no: 43

### Total cash and bank to total deposit ratio of Siddhartha Bank

(Rs in million)

Year	Cash and Bank Balances	Total Deposit	Ratio
2002/03	27.07	391.68	6.91
2003/04	71.83	1,291.31	5.56
2004/05	130.71	2,461.92	5.31
2005/06	115.93	3,918.08	2.96
2006/07	517.22	6,625.08	7.81
			Average:5.71

According to the above table the ratio of cash and bank balances to total deposit of SBL were 6.91% un the year 2002/03, 5.56% in the year 2003/04, 5.31% in the year 2004/05, 2.96% in the year 2005/06 and 7.81% in the year 2006/07. The ratio is in the period of the study did not fluctuated very much except for the year 2005/06 when the ratio was 296%. The average ratio for the study period is 5.71 %.

#### **Comparative analysis:**

The comparisons of two banks shows that Kumari bank has maintained more liquidity than Siddhartha bank. The average ratio of cash and bank balances to total deposit for the study period is 8.86% for KBL and 5.71% for SBL.

### **4.7 Presentation of Interest income and Interest expenses**

Interests are the return gained from the loans granted and the investment made. Similarly interests are the amount paid to the depositors in other words it is the return to the depositors.

#### 4.7.1 Analysis of Interest income

##### A) Analysis of Kumari Bank Limited

**Table no: 44**  
**Interest income of Kumari Bank**  
(Rs in million)

<b>Year</b>	<b>Interest Income</b>	<b>% Change</b>
2002/03	185.09	-
2003/04	310.21	67.60
2004/05	499.91	61.15
2005/06	605.52	21.13
2006/07	791.28	30.68
<b>Total</b>	2392.01	

The above table no 44 shows the interest income of Kumari Bank for the study period. The interest income has risen from Rs185.09 million in the year 2002/03 to Rs791.28 Million in the year 2006/07. The yearly increase in the interest income is 67.60% in the year 2003/04, 64.15% in the year 2004/05, 21.13% in the year 2005/06 and by 30.68% in the year 2006/07 compared to the previous year. The total interest income has increased as a result of increase in the total loans, and investment. This also shows that the quality of loan and investment is good and bank is able to recover its loans.

##### B) Analysis of Siddhartha Bank

**Table no: 45**  
**Interest income of Siddhartha Bank**  
(Rs in million)

<b>Year</b>	<b>Interest Income</b>	<b>% Change</b>
2002/03	23.88	-
2003/04	113.62	375.80
2004/05	198.18	74.42
2005/06	305.56	54.18
2006/07	481.52	57.59
<b>Total</b>	1122.76	

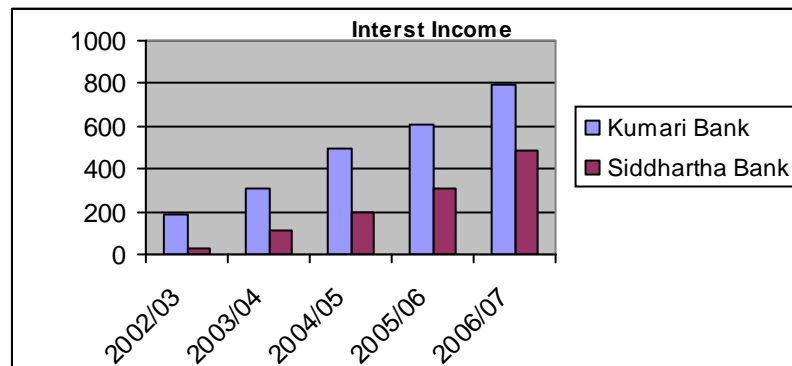
The above table shows the interest income of Siddhartha Bank for the study period. The total interest income earned in the period of the study is Rs.1122.76 million. There has been a steady increase in the interest income from 2002/03 to 2006/07. The interest income has increased by 375.80% in the year 2003/04 compared to previous year this is due to the increase in the loans and investment of the banks in different sectors.

### **Comparative analysis**

The total interest income of Kumari Bank is almost double the income of Siddhartha Bank. This is due the difference in the amount of deposit of both the banks and their mobilization of the deposit. The increment rate of the interest income of KBL is greater than SBL. The comparison of interest income between two banks can be presented from figure also:

**Figure: 5**

**Interest income of Kumari Bank and Siddhartha Bank**



#### 4.7.2 Analysis of Composition of Interest Income

Commercial Banks earns interest in different heading i.e. from loans and advances, from investment and from bank balances also.

##### A) Analysis of Kumai Bank Limited

**Table no: 46**  
**Composition of Interest income of Kumari Bank**  
(Rs in million)

Year	On Loan & Advances	On Investment	On Money at Call	Bank Balance	Others
2002/03	168.13	7.84	-	1.8	6.3
2003/04	280.7	115.18	-	0.77	12.05
2004/05	462.72	185.9	10.95	0.1	-
2005/06	573.68	48.12	23.02	0.28	0.4
2006/07	691.14	44.9	54.09	1.14	-
<b>Total</b>	<b>2176.37</b>	<b>401.94</b>	<b>88.06</b>	<b>4.09</b>	<b>18.75</b>

The above table 46 shows the classification of interest income of Kumari Bank. According to the above table the interest from loans and advances holds majority of the interest income. The total interest income from loans for the study period is Rs.2176.37 million. The next big income is from investment which amounts to Rs.368.94 million

##### B) Analysis of Siddhartha Bank Limited

**Table no: 47**  
**Composition of Interest income of Siddhartha Bank**  
(Rs in million)

Year	On Loan & Advances	On Investment	On Money at Call	Bank Balance	Others
2002/03	16.75	7.13	-	-	-
2003/04	108.36	1.61	3.21	0.12	0.31
2004/05	192.43	3.85	1.78	0.11	-
2005/06	285.34	14.82	2.34	3.04	-
2006/07	402.75	68	10.37	0.099	0.28
<b>Total</b>	<b>1005.63</b>	<b>95.41</b>	<b>17.7</b>	<b>3.369</b>	<b>0.59</b>

According to the above table the interest from loans and advances holds majority of the interest income. The total interest income from loans for the study period is Rs.1005.63 million. The next big income is from investment which amounts to Rs.95.41 million.

#### **Comparative analysis:**

The interest incomes of both the banks are from the interest from loan and advances. The second source of interest income is from investment.

#### **4.7.3 Analysis of Interest Income to Total Interest**

##### **A) Analysis of Kumari Bank Limited**

**Table no: 48**

#### **Interest income to total interest of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>On Loan &amp; Advances (%)</b>	<b>On Investment (%)</b>	<b>On Money at Call (%)</b>	<b>Bank Balance (%)</b>	<b>Others (%)</b>
2002/03	91.34	4.26	-	0.98	3.42
2003/04	68.68	28.18	-	0.19	2.95
2004/05	70.14	28.18	1.66	0.02	-
2005/06	88.87	7.45	3.57	0.04	0.06
2006/07	91.15	1.57	7.13	0.15	-

The table 48 shows the percentage of interest income over total interest income. The table shows that the interest form loan and advances is the highest in the composition of interest income. In the year 2002/03 the interest from loans was 91.34% o the total interest income. In the subsequent year this percentage has decreased to 68.68%. this shows that KBL has also ventured in other forms of deposit mobilization with good return and similarly the bank is able to collect its loan and the interest amount . In the year 2006/07



again the percentage of interest from loans is over 90% with decrease in the interest from investment to 1.57%.

## B) Analysis of Siddhartha Bank Limited

**Table no: 49**

### **Interest income to total interest of Siddhartha Bank**

(Rs in million)

<b>Year</b>	<b>On Loan &amp; Advances (%)</b>	<b>On Investment (%)</b>	<b>On Money at Call (%)</b>	<b>Bank Balance (%)</b>	<b>Others (%)</b>
2002/03	70.14	29.86	-	-	-
2003/04	95.38	1.42	2.83	0.11	0.27
2004/05	97.10	1.94	0.90	0.06	-
2005/06	93.39	4.85	0.77	0.99	-
2006/07	83.65	14.12	2.15	0.02	0.06

According to the table the majority of the interest income is covered by interest from loans and advances. The interest income from other forms of deposit mobilization has increased simultaneously except for interest form investment. The interest from investment was 29.86% of the total interest in the year 2002/03. The percentage sharply declined in the following years but was increased to 14.12% in the year 2006/07.

### **Comparative analysis**

The analysis of the interest income of both the banks suggests that interest income form loans and advances are the major sources of interest income. Beside this both the banks are earning interest from other sources also which are in increasing trend. This shows that both the banks are able to mobilize their deposit in good sectors and earn from them.

#### 4.7.4 Analysis of Interest Expenses

Banks has to pay certain return to their depositors for the amount deposited in the bank. This is the interest expenses which are also known as the cost of deposits for the banks which is one of the important measuring rods of the efficiency for any commercial bank.

##### A) Analysis of Kumari Bank Limited

**Table no: 50**

#### **Interest expenses of Kumari Bank**

(Rs in million)

<b>Year</b>	<b>Interest Expenses</b>	<b>% Change</b>
2002/03	92.94	
2003/04	163.9	76.35
2004/05	240.13	46.51
2005/06	337.05	40.36
2006/07	397.05	17.80
<b>Total</b>	1231.07	

The total interest expenses of the Kumari Bank are increasing yearly. The interest expenses were Rs.92.94 million in the year 2002/03. It increased by 76.35% in the year 2003/04 amounting to Rs.163.9million. From the year 2004/05 the interest expenses has increased but in the decreasing ratio. The interest expenses increased by 46.51% in the year 2004/05 amounting to Rs.240.13 million. Similarly in the year 2005/06 and 2006/07 it increased by 40.36% and 17.80% amounting to Rs.337.05million and Rs.397.05million respectively. This does not mean that bank is not able to increase its deposit amount but shows that the deposit are increasing with more amount in interest free deposit.

## B) Analysis of Siddhartha Bank Limited

Table no: 51

### Interest expenses of Siddhartha Bank

(Rs in million)

Year	Interest Expenses	% Change
2002/03	5.61	
2003/04	45.5	711.05
2004/05	91.98	102.15
2005/06	153.7	67.10
2006/07	271.71	76.78
<b>Total</b>	<b>568.5</b>	

The above table shows the interest expenses of Siddhartha Bank for the period of the study. In the year the interest expense was Rs.5.61 million only which increased by 711.05% in the year 2003/04. Similarly the interest expenses increased by 102.15% in the year 2004/04, by 67.10% in the year 2005/06 and by 76.78% in the year 2006/07. The interest expenses of SBL has fluctuated which shows that the interest bearing deposit are increasing and the composition of deposit are also fluctuating.

#### 4.7.5 Analysis of composition of Interest expenses

##### A) Analysis of Kumari Bank Limited

Table no: 52

### Composition of Interest expenses of Kumari Bank

(Rs in million)

Year	Fixed Deposit		Saving Deposit		Call Deposit		Other Borrowings	
	Amount (Rs)	%	Amount (Rs)	%	Amount (Rs)	%	Amount (Rs)	%
2002/03	35.58	38.28	15.59	16.77	40.44	43.51	1.32	1.42
2003/04	64.35	39.26	24.4	14.89	73.3	44.72	1.83	1.12
2004/05	93.41	38.90	43.74	18.22	97.7	40.69	5.25	2.19
2005/06	161.04	47.78	63.41	18.81	105.86	31.41	6.73	2.00
2006/07	153.08	38.55	106.75	26.89	129.45	32.60	7.75	1.95
<b>Total</b>	<b>507.46</b>	<b>41.22</b>	<b>253.89</b>	<b>20.62</b>	<b>446.75</b>	<b>32.28</b>	<b>22.88</b>	<b>1.85</b>

The above table shows the composition of interest expenses of Kumai Bank. The total interest comprises of the interest paid in the different types of deposit and the interest paid on the different borrowings of the bank. According to the table the interest expenses of the bank in fixed deposit is Rs.507.46million which is 41.22% of the total interest expenses. Similarly the interest on saving deposit is 20.62%, interest on call deposit is 32.28% and other borrowings are 1.85% of the total interest expenses.

## B) Analysis of Siddhartha Bank Limited

**Table no: 53**

### **Composition of Interest expenses of Siddhartha Bank**

(Rs in million)

Year	Fixed Deposit		Saving Deposit		Call Deposit		Other Borrowings	
	Amount (Rs)	%	Amount (Rs)	%	Amount (Rs)	%	Amount (Rs)	%
2002/04	1.07	19.07	0.94	16.76	3.16	56.33	0.44	7.84
2003/04	20.42	44.88	6.8	14.95	14.28	31.38	3.98	8.75
2004/05	47.21	51.33	16.81	18.28	23.23	25.26	4.71	5.12
2005/06	77.85	50.65	31.49	20.49	33.52	21.81	10.83	7.05
2006/07	118.8	43.72	62.96	23.17	81.42	29.97	8.50	3.13
<b>Total</b>	<b>265.35</b>	<b>46.68</b>	<b>119</b>	<b>20.93</b>	<b>155.61</b>	<b>27.37</b>	<b>28.46</b>	<b>5.01</b>

The above table shows the interest expenses of Siddhartha Bank for the study period. It is clear from the table that 46.68% of the total interest is paid on the fixed deposit and saving deposit is the second largest with 20.93%.

### **Comparative analysis:**

The comparative analysis shows that majority of the interest is paid by the commercial banks is paid in the fixed deposit. This shows that fixed deposit is the largest source of deposit for commercial banks.

#### 4.7.6 Analysis of Cost of Deposit

Cost of deposit is the cost incurred to obtain the amount of deposit. In the case of deposit of commercial banks the interest paid on the deposit is the cost of deposit. The total interest expenses shown by the commercial banks include interest paid on their borrowings, so here analysis is done to find out the actual cost of deposit by deducting the interest expenses on borrowings from the total interest expenses.

##### A) Analysis of Kumari Bank Limited

**Table no: 54**

#### **Actual interest on deposit of Kumari Bank**

(in million)

<b>Year</b>	<b>Interest on Deposit</b>	<b>Total Deposit</b>	<b>Ratio</b>
2002/03	91.61	2,513.14	3.65
2003/04	162.05	4,807.94	3.37
2004/05	234.85	6,268.95	3.75
2005/06	330.31	7,768.96	4.25
2006/07	389.28	10,557.42	3.69
Average:3.74			

The above table shows the cost of deposit for Kumari Bank. The cost of deposit in the year 2002/03 is 3.65% of the total deposit. The ratio of interest decreased to 3.37% , in the year 2004/05 it was 3.75%, in the year 2004/05 it was 4.55% and in 2006/07 it is 3.69% of the total deposit. The average cost of deposit for the period of the study is 3.74% of the total deposit. The higher ratio shows the increase of interest bearing deposit and lower ratio represents the higher portion of interest free deposit in the total deposit.

## B) Analysis of Siddhartha Bank Limited

Table no: 55

### Actual interest on deposit of Siddhartha Bank

(in million)

Year	Interest on Deposit	Total Deposit	Ratio
2002/03	5.17	391.68	1.32
2003/04	41.5	1,291.31	3.21
2004/05	87.25	2,461.92	3.54
2005/06	142.86	3,918.08	3.65
2006/07	263.18	6,625.08	3.97
Average:3.13			

The above table shows the cost of deposit of Siddhartha Bank for the period of the study.

The ratio of interest over total deposit in the year 2002/03 is only 1.32%. The ratio increased to 3.21% in the year 2003/04, to 3.54% in the year 2004/05, to 3.65% in the year 2005/06 and to 3.97% in the year 2006/07. The average cost of deposit for the five year is 3.13%. The yearly increment in the cost of deposit shows the increment in the interest bearing deposit of the bank.

#### **Comparative analysis:**

The analysis of the cost of deposit of both the banks shows the ratio around 3% to 4% which shows the similarity in the rate of interest provided by the commercial banks. The cost of deposit of Kumari Bank is greater than that of Siddhartha Bank which suggests that Kumari Bank holds more interest bearing deposit than Siddhartha Bank. Kumari Bank pays more interest than Siddhartha Bank in total which is due to the large amount of deposit than that of Siddhartha Bank.

### **4.8 Analysis of Return**

Return is the gain from any activity. Return is the income generated from any activity say loans and advances or investment. Return is the income generated from these activities.

This ratio measures the earning capacity of commercial banks through its fund mobilization.

#### **4.8.1 Return on Total Loan and Advances**

Return on loan and advances are measured by the ratio of the net profit to total loan and advances. Higher ratio indicated greater success to mobilize fund as loan and advances and vice versa. Mostly loan and advances include cash, credit, over-draft, bills purchased and discounted.

#### **A) Analysis of Kumari Bank Limited**

**Table no: 56**

#### **Net profit to total loan and advances of Kumari Bank**

(in million)

<b>Year</b>	<b>Net Profit</b>	<b>Loan &amp; Advances</b>	<b>Ratio</b>
2002/03	12.47	2,137.58	0.58
2003/04	48.68	3,697.98	1.32
2004/05	87.88	5,681.01	1.55
2005/06	103.66	7,007.78	1.48
2006/07	170.26	9,062.43	1.88
			Average:1.36

The above table shows the ratio of net profit to total loans and advances. The ratios were 0.58%, 1.32%, 1.55%,1.48% and 1.88% in the year 2002/03,2003/04,2004/05,2005/06 and 2006/07 respectively. The average ratio 1.36% for the study period. The ratio is increasing every year except for 2005/06. This shows that KBL is able to effectively mobilize fund in loans and advances and earn a good return from it.

## B) Analysis of Siddhartha Bank Limited

Table no: 57

### Net profit to total loan and advances of Siddhartha Bank

(in million)

Year	Net Profit	Loan & Advances	Ratio
2002/03	-	629.02	-
2003/04	17.48	1567.83	1.11
2004/05	70.27	2637.93	2.66
2005/06	65.25	3869.27	1.69
2006/07	95.36	6319.73	1.51
Average:1.39			

According to the above table the ratio of net profit to total loan is very fluctuating for the study period. The ratios were 1.11%, 2.66%, 1.69% and 1.51% in the year 2003/04, 2004/05, 2005/06, 2006/07 respectively. The average ratio for the period is 1.39%. The fluctuation shows that the funds mobilization in loan and advances are not consistent and the bank should look in to it.

#### Comparative analysis:

In comparison, although Siddhartha bank has higher average net profit to total loan & advances ratio rather than Kumari bank during the study period. The trend of return on loan & advances ratio of Siddhartha bank is not good because of continuously fluctuating trend. But the ratio of Kumari bank is continuously in increasing. Thus, the management of Siddhartha bank must revise the lending policy as well as invests in those sectors, which have high return with low risk.

#### 4.8.2 Return on Total Investment

Returns on investment are measured by the ratio of the net profit to investment. Higher ratio indicated greater success to mobilize fund as investment and vice versa. Mostly investment include government bonds and securities, treasury bills etc.



## A) Analysis of Kumari Bank Limited

Table no: 58

### Net profit to total investment of Kumari Bank

(in million)

Year	Net Profit	Investment	Ratio
2002/03	12.47	423.54	2.94
2003/04	48.68	983.50	4.95
2004/05	87.88	1,190.27	7.38
2005/06	103.66	1,394.94	7.43
2006/07	170.26	1,678.41	10.14
			Average:6.57

The above table 58 shows the ratio of net profit to total investment. The ratio were 2.94%, 4.95%, 7.38%, 7.43%, 10.14% in the year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 respectively. The ratio is in continuously increasing trend with the average of 6.57% for the study period. The increasing ratio shows the investment in good financial tools with better return.

## B) Analysis of Siddhartha Bank Limited

Table no: 59

### Net profit to total investment of Siddhartha Bank

(in million)

Year	Net Profit	Investment	Ratio
2002/03	-	3.77	-
2003/04	17.48	42.05	41.57
2004/05	70.27	286.62	24.52
2005/06	65.25	650.97	10.02
2006/07	95.36	865.18	11.02
			Average:17.42

According to the above table the ratio of net profit to total investment of Siddhartha Bank is 41.57%,24.52%,10.02% and 11.02% in the year 2002/03, 2004/05, 2005/06, 2006/07

respectively. The ratio is in decreasing trend, but the average ratio for the study period is 14.72%. This shows that SBL has given priorities to investment rather than loan and advanced.

### **Comparative Analysis:**

In comparison, although Siddhartha bank has higher average net profit to investment ratio rather than Kumari bank during the study period. The trend of return on investment ratio of Siddhartha bank is not good because of continuously decreasing. But the ratio of Kumari bank is continuously in increasing. Thus, the management of Siddhartha bank must revise the investment policy and invest in more productive sectors, which have high return with low risk.

### **4.8.3 Analysis of Interest income in Loan over Total Loan and Advance**

Loans and advances are granted with the hope of earning certain return in the form of interest. Interest on loan and advances are the integral part of the loan and advances. Analysis is done to find out the ratio of return on loan and advances.

#### **A) Analysis of Kumari Bank Limited**

**Table no: 60**

#### **Total interest in loan to total loan and advances of Kumari Bank**

(in million)

<b>Year</b>	<b>Interest on Loan &amp; Advances</b>	<b>Total Loan</b>	<b>Ratio</b>
2002/03	168.13	2,137.58	7.87
2003/04	280.7	3,697.98	7.59
2004/05	462.72	5,681.01	8.15
2005/06	573.68	7,007.78	8.19
2006/07	691.14	9,062.43	7.63
<b>Total</b>	2176.37	27,586.78	
			Average:7.88

The above table analyses the ratio of interest on loan and advances to total loan and advances of Kumari Bank. The ratio were 7.87%, 7.59%, 8.15%, 8.19%, 7.63% in the year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 respectively. Higher ratio indicates higher efficiency in collecting interest on loan and advances. The average ratio for the study period is 7.88%.

## B) Analysis of Siddhartha Bank Limited

**Table no: 61**

### **Total interest in loan to total loan and advances of Siddhartha Bank**

(in million)

<b>Year</b>	<b>Interest On Loan &amp; Advances</b>	<b>Total Loan</b>	<b>Ratio</b>
2002/03	16.75	629.02	2.66
2003/04	108.36	1567.83	6.91
2004/05	192.43	2637.93	7.29
2005/06	285.34	3869.27	7.37
2006/07	402.75	6319.73	6.37
<b>Total</b>	1005.63	15,023.78	
			Average:6.12

The above table shows the ratio of interest on loan to total loan as 2.66%, 6.91%, 7.29%, 7.37%, 6.37% in the year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 respectively. The ratio is increasing every year but in the final year of the study the ratio has increased by only 6.37% compared to previous year. The average ratio for the study period is 6.12%.

### **Comparative analysis:**

The comparative analysis shows that the interest collection of Kumai Bank is better than that of Siddhartha Bank Limited. The average ratio of KBL is 7.88% and 6.12% of Siddhartha Bank. The analysis shows that Siddhartha Bank should concentrate on interest collection on loan and advances and should reduce the amount of non performing loan.

#### 4.8.4 Analysis of Interest income on Investment over Total Investment

Investment in market tools are done to earn a certain return in the form of interest. Interest on the return describes the efficiency of the investment. The higher the ratio, it signifies the quality of investment.

##### A) Analysis of Kumari Bank Limited

**Table no: 62**

#### **Total interest to total investment of Kumari Bank**

(in million)

<b>Year</b>	<b>Interest on Investment</b>	<b>Total Investment</b>	<b>Ratio</b>
2002/03	7.84	423.54	1.85
2003/04	115.18	983.5	11.71
2004/05	185.9	1,190.27	15.62
2005/06	48.12	1,394.94	3.45
2006/07	44.90	1,678.41	2.68
<b>Total</b>	368.94	5,670.66	
			Average:7.06

The above table shows the ratio of interest of investment over total investment. The ratios were 1.85%, 11.71%, 15.62%, 3.45% and 2.68% in the year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 respectively. The amount of interest earned on the total investment of Kumari Bank is fluctuating, it was Rs.7.84 million in the year 2002/03, Rs.115.18 million in the year 2003/04, Rs.185.9 million in 2004/05, Rs.48.12 in 2005/06 and Rs.44.9 million in 2006/07. The ratio is decreasing every year with average ratio of 7.06%.

## B) Analysis of Siddhartha Bank Limited

Table no: 63

### Total interest to total investment of Siddhartha Bank

(in million)

Year	Interest on Investment	Total Investment	Ratio
2002/03	7.13	3.77	189.12
2003/04	1.61	42.05	3.83
2004/05	3.85	286.62	1.34
2005/06	14.82	650.97	2.28
2006/07	68.00	865.18	7.86
<b>Total</b>	95.41	1,848.59	
Average:40.89			

The above table shows the ratio of interest of investment over total investment. The ratios were 189.12%, 3.83%, 1.34%, 2.28% and 7.86% in the year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 respectively. The ratio is fluctuating every year with average ratio of 40.89%.

#### Comparative analysis:

The ratio of Kumari Bank is greater than Siddhartha Bank which shows that KBL is able to invest in investment more amount than SBL. But although the amount is high the amount of interest earned by KBL is very low compared to SBL. But the ratio of both the banks are decreasing which suggest that both the banks should seek better investment opportunities.

#### 4.8.4 Analysis of Interest income on Money at call and Total Money at call

##### A) Analysis of Kumari Bank Limited

Table no: 64

##### Total interest to money at call of Kumari Bank

(in million)

Year	On Money at Call	Total Money at Call	Ratio
2002/03	-	-	-
2003/04	-	-	-
2004/05	10.95	90	12.17
2005/06	23.02	145	15.88
2006/07	54.09	372	14.54
<b>Total</b>	88.06	607.00	
			Average:5.82

The above table shows the interest on money at call over total money at call of KBL. The total interest earned is RS.88.06 million on the total investment of Rs.607.00 million. The ratio of interest over total money at call is 12.17% in the year 2004/05, 15.88% in the year 2005/06 and 15.54% in the year 2006/07. The ratio is increasing with the average ratio of 5.82% for the study period.

##### B) Analysis of Siddhartha Bank Limited

Table no: 65

##### Total interest to money at call of Siddhartha Bank

(in million)

Year	On Money at Call	Total Money at Call	Ratio
2002/03	-	102.07	-
2003/04	3.21	174.83	1.84
2004/05	1.78	22.47	7.92
2005/06	2.34	100	2.34
2006/07	10.37	229.44	4.52
<b>Total</b>	17.7	628.81	
			Average:3.32

The above table shows the interest on money at call over total money at call of SBL. The ratio is increasing with the average ratio of 3.32% for the study period.

**Comparative analysis:**

The total amount investment in money at call and short notices of both the banks are almost the same but the interest by it is greater of Kumari Bank than Siddhartha Bank. This shows that KBL is investing the money at better rate of interest than SBL. So Siddhartha Bank should focus on the investment with better rate of interest.

**4.9 Statistical Analysis**

Statistical analysis is the tools used to find out the relationship between different variables. Among the various tools used correlation coefficient is one of them.

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation may be positive, negative or zero

Here, we study simple correlation only. In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent variable

#### 4.9.1 Analysis of Correlation between Total deposit and Loan and Advances

##### A) Analysis of Kumari Bank Limited

Table no: 66

#### Computation of correlation coefficient between total deposits and total loan & advances of Kumari bank

(in million)

Year	X	Y	x <sup>2</sup>	y <sup>2</sup>	xy
2002/03	2513.14	2137.58	6315872.66	4569248.26	5372037.80
2003/04	4807.94	3697.98	23116287.04	13675056.08	17779665.96
2004/05	6268.95	5681.01	39299734.10	32273874.62	35613967.64
2005/06	7768.96	7007.78	60356739.48	49108980.53	54443162.51
2006/07	10557.42	9062.43	111459117.06	82127637.50	95675879.73
<b>Total</b>	31916.41	27586.78	240547750.34	181754796.99	208884713.64

Where X= Total Deposit, Y= Total Loan, X = 31916.41, Y = 27586.78, X<sup>2</sup> =

240547750.4, Y<sup>2</sup> = 181754796.99, XY = 208884713.64 and N = 5.

$$\text{Now, correlation coefficient, } r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2]} \sqrt{[N \sum Y^2 - (\sum Y)^2]}}$$

$$= 0.99$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.006003$$

Since  $r = 0.99$ , there is Perfectly positive relationship between total deposit and loan and advances. Thus, deposit and loan and advances is highly correlated with each other. Not only this, it also shows that there is fully utilization of deposit fund in the bank.

Probable Error: Probable Error is the measurement of testing the reliability of computed value of correlation (r). Since r is greater than 6 P.E ( I.e. 0.006003) i.e  $0.99 > 0.006003$ , r is practical and is highly significant.



## B) Analysis of Siddhartha Bank Limited

Table no: 67

### Computation of correlation coefficient between total deposits and total loan & advances of Siddhartha bank

(in million)

Year	X	Y	x <sup>2</sup>	y <sup>2</sup>	xy
2002/03	391.68	692.02	153413.22	478891.68	271050.3936
2003/04	1291.31	1567.83	1667481.52	2458090.91	2024554.5573
2004/05	2461.92	2637.93	6061050.09	6958674.68	6494372.6256
2005/06	3918.08	3869.27	15351350.89	14971250.33	15160109.4016
2006/07	6625.08	6319.73	43891685.01	39938987.27	41868716.8284
Total	14688.07	15086.78	67124980.72	64805894.88	65818803.8065

Where X= Total Deposit, Y= Total Loan,  $\Sigma X = 14688.07$ ,  $\Sigma Y = 15086.78$ ,  $\Sigma X^2 = 67124980.72$ ,  $\Sigma Y^2 = 64805894.88$ ,  $\Sigma XY = 65818803.8065$  and  $N = 5$ .

$$\text{Now, correlation coefficient, } r = \frac{N \Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{[N \Sigma X^2 - (\Sigma X)^2]} \sqrt{[N \Sigma Y^2 - (\Sigma Y)^2]}}$$
$$= 0.99$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$
$$= 0.006003$$

DECISION:

Since  $r = 0.99$ , there is Perfectly positive relationship between total deposit and loan and advances. Thus, deposit and loan and advances is highly correlated with each other. Not only this, it also shows that there is fully utilization of deposit fund in the bank.

Probable Error: Probable Error is the measurement of testing the reliability of computed value of correlation (r). Since r is greater than 6 P.E ( I.e. 0.006003) i.e  $0.99 > 0.006003$ , r is practical and is highly significant.

## 4.9.2 Analysis of Correlation between Total deposit and Investment

### A) Analysis of Kumari Bank Limited

Table no: 68

#### Computation of correlation coefficient between total deposits and total investment of Kumari bank

(in million)

Year	X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2002/03	2,513.14	423.54	6,315,872.66	179,386.13	1,064,415.32
2003/04	4,807.94	983.50	23,116,287.04	967,272.25	4,728,608.99
2004/05	6,268.95	1,190.27	39,299,734.10	1,416,742.67	7,461,743.12
2005/06	7,768.96	1,394.94	60,356,739.48	1,945,857.60	10,837,233.06
2006/07	10,557.42	1,678.41	111,459,117.06	2,817,060.13	17,719,679.30
Total	31,916.41	5,670.66	240,547,750.34	7,326,318.79	41,811,679.79

Where X= Total Deposit, Y= Investment X = 31916.41, Y = 5670.66, X<sup>2</sup> =

240547750.34, Y<sup>2</sup> = 7326318.79, XY = 41811679.79 and N = 5.

$$\text{Now, correlation coefficient, } r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2]} \sqrt{[N \sum Y^2 - (\sum Y)^2]}}$$
$$= 0.99$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$
$$= 0.006003$$

Since  $r = 0.99$ , there is perfectly positive relationship between total deposit and investment. Thus, deposit and investment is highly correlated with each other. Not only this, it also shows that there is fully utilization of deposit fund in the bank.

Probable Error: Probable Error is the measurement of testing the reliability of computed value of correlation ( $r$ ). Since  $r$  is greater than 6 P.E (I.e. 0.006003) i.e.  $0.99 > 0.006003$ ,  $r$  is practical and is highly significant.

## B) Analysis of Siddhartha Bank Limited

Table no: 69

### Computation of correlation coefficient between total deposits and investment of Siddhartha bank

(in million)

Year	X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2002/03	391.68	3.77	153,413.22	14.21	1,476.63
2003/04	1,291.31	42.05	1,667,481.52	1,768.20	54,299.59
2004/05	2,461.92	286.62	6,061,050.09	82,151.02	705,635.51
2005/06	3,918.08	650.97	15,351,350.89	423,761.94	2,550,552.54
2006/07	6,625.08	865.18	43,891,685.01	748,536.43	5,731,886.71
Total	14,688.07	1,848.59	67,124,980.72	1,256,231.81	9,043,850.98

Where X= Total Deposit, Y= Investment X = 14688.07, Y = 1848.49, X<sup>2</sup> = 67124980.72, Y<sup>2</sup> = 1256231.81, XY = 9043850.98 and N = 5.

$$\text{Now, correlation coefficient, } r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2]} \sqrt{[N \sum Y^2 - (\sum Y)^2]}}$$
$$= 0.98$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$
$$= 0.01195$$

Since  $r = 0.99$ , there is perfectly positive relationship between total deposit and investment. Thus, deposit and investment is highly correlated with each other. Not only this, it also shows that there is fully utilization of deposit fund in the bank.

Probable Error: Probable Error is the measurement of testing the reliability of computed value of correlation (r). Since r is greater than 6 P.E (I.e. 0.006003) i.e.  $0.99 > 0.006003$ , r is practical and is highly significant.

**4.9.3 Analysis of Correlation between Total deposit and Other Investment(Money at call and short notices)**

**A) Analysis of Kumari Bank Limited**

**Table no: 70**

**Computation of correlation coefficient between total deposits and total other investment of Kumari bank**

(in million)

Year	X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2002/03	2,513.14	-	6,315,872.66	-	-
2003/04	4,807.94	-	23,116,287.04	-	-
2004/05	6,268.95	90.00	39,299,734.10	8,100.00	564,205.50
2005/06	7,768.96	145.00	60,356,739.48	21,025.00	1,126,499.20
2006/07	10,557.42	372.00	111,459,117.06	138,384.00	3,927,360.24
Total	31,916.41	607.00	240,547,750.34	167,509.00	5,618,064.94

Where X= Total Deposit, Y=Other Investment X = 31916.41, Y = 607, X<sup>2</sup> = 240547750.34, Y<sup>2</sup> = 167509.00, XY = 5618064.94 and N = 5.

$$\text{Now, correlation coefficient, } r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2]} \sqrt{[N \sum Y^2 - (\sum Y)^2]}}$$

$$= 0.94$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.03511$$

Since r = 0.99, there is perfectly positive relationship between total deposit and other investments( money at call and short notices). Thus, deposit and other investment is highly correlated with each other. Not only this, it also shows that there is fully utilization of deposit fund in the bank.

Probable Error: Probable Error is the measurement of testing the reliability of computed value of correlation (r). Since r is greater than 6 P.E (I.e. 0.03511) i.e.  $0.99 > 0.03511$ , r is practical and is highly significant.

## B) Analysis of Siddhartha Bank Limited

Table no: 71

### Computation of correlation coefficient between total deposits and total other investment of Siddhartha bank

(in million)

Year	X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2002/03	391.68	102.07	153,413.22	10,418.28	39,978.78
2003/04	1,291.31	174.83	1,667,481.52	30,565.53	225,759.73
2004/05	2,461.92	22.47	6,061,050.09	504.90	55,319.34
2005/06	3,918.08	100.00	15,351,350.89	10,000.00	391,808.00
2006/07	6,625.08	229.44	43,891,685.01	52,642.71	1,520,058.36
Total	14,688.07	628.81	67,124,980.72	104,131.43	2,232,924.20

Where X= Total Deposit, Y=Other Investment  $X = 14688.07$ ,  $Y = 628.81$ ,  $X^2 = 67124980.72$ ,  $Y^2 = 104131.43$ ,  $XY = 2232924.20$  and  $N = 5$ .

$$\text{Now, correlation coefficient, } r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2]} \sqrt{[N \sum Y^2 - (\sum Y)^2]}}$$

$$= 0.50$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.2262$$

Since  $r = 0.99$ , there is perfectly positive relationship between total deposit and other investments (money at call and short notices). Thus, deposit and investment is highly correlated with each other. Not only this, it also shows that there is fully utilization of deposit fund in the bank.

Probable Error: Probable Error is the measurement of testing the reliability of computed value of correlation (r). Since r is greater than 6 P.E (I.e. 0.2262) i.e.  $0.99 > 0.2262$ , r is practical and is highly significant.

#### 4.9.4 Analysis of Correlation between Total deposit and Net Profit

##### A) Analysis of Kumari Bank Limited

Table no: 72

Computation of correlation coefficient between total deposits and net profit of Kumari bank

(in million)

Year	X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2002/03	2,513.14	12.47	6,315,872.66	155.50	31,338.86
2003/04	4,807.94	48.68	23,116,287.04	2,369.74	234,050.52
2004/05	6,268.95	87.88	39,299,734.10	7,722.89	550,915.33
2005/06	7,768.96	103.66	60,356,739.48	10,745.40	805,330.39
2006/07	10,557.42	170.26	111,459,117.06	28,988.47	1,797,506.33
	31,916.41	422.95	240,547,750.34	49,982.00	3,419,141.42

Where X= Total Deposit, Y= Net Profit  $X = 31916.41$ ,  $Y = 422.95$ ,  $X^2 = 240547750.34$ ,  $Y^2 = 49982.00$ ,  $XY = 3419141.42$  and  $N = 5$ .

$$\text{Now, correlation coefficient, } r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2]} \sqrt{[N \sum Y^2 - (\sum Y)^2]}}$$

$$= 0.99$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.006003$$

Since  $r = 0.99$ , there is perfectly positive relationship between total deposit and net profit. Thus, deposit and net profit is highly correlated with each other. Not only this, it also shows that there is fully utilization of deposit fund in the bank.

Probable Error: Probable Error is the measurement of testing the reliability of computed value of correlation (r). Since r is greater than 6 P.E (I.e. 0.006003) i.e.  $0.99 > 0.006003$ , r is practical and is highly significant.

### B) Analysis of Siddhartha Bank Limited

Table no: 73

#### Computation of correlation coefficient between total deposits and net profit of Siddhartha bank

(in million)

Year	X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2002/03	391.68	-	153,413.22	-	-
2003/04	1,291.31	17.48	1,667,481.52	305.55	22,572.10
2004/05	2,461.92	70.27	6,061,050.09	4,937.87	172,999.12
2005/06	3,918.08	62.25	15,351,350.89	3,875.06	243,900.48
2006/07	6,625.08	95.36	43,891,685.01	9,093.53	631,767.63
Total	14,688.07	245.36	67,124,980.72	18,212.02	1,071,239.33

Where X= Total Deposit, Y=Net Profit X = 14688.07, Y = 245.36, X<sup>2</sup> = 67124980.72, Y<sup>2</sup> = 18212.02, XY = 1071239.33 and N = 5.

$$\text{Now, correlation coefficient, } r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2]} \sqrt{[N \sum Y^2 - (\sum Y)^2]}}$$

$$= 0.91$$

$$\text{Similarly, P. E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.2498$$

Since  $r = 0.99$ , there is perfectly positive relationship between total deposit net profit. Thus, deposit and net profit is highly correlated with each other. Not only this, it also shows that there is fully utilization of deposit fund in the bank.

Probable Error: Probable Error is the measurement of testing the reliability of computed value of correlation ( $r$ ). Since  $r$  is greater than 6 P.E (I.e. 0.2498) i.e.  $0.99 > 0.2498$ ,  $r$  is practical and is highly significant.

#### **4.10 Primary data analysis**

To generate the primary data, the structured questionnaire method has applied.

Structured questionnaire will be prepared to generate the realistic and accurate data from banks. The respondents will be requested to fill up the questionnaire. Out of the 15 set of questionnaires of Kumari Bank and Siddhartha Bank Limited, some filled the questionnaire and responded verbally. The format of questionnaire has shown on annex.

#### **Interpretation of questionnaire's responses given by employees of Kumari Bank Limited and Siddhartha Bank Limited**

The result from the questionnaire can be pointed out as follow:

- ) Both the commercial banks focused on the savings deposits for the steady deposit and for larger deposit call accounts were preferred.
- ) The interest is the important factor for collecting deposit and the minimum balance for the deposit is the second important factor. The reputation of the bank and the other services are the least important factor in deposit collection.
- ) The study concluded that the other promotional tools helped very much in increasing the amounts of deposit.



- J Out the total respondents 50% of them were in favour of using promotional schemes like prizes to increase the deposit and rest were against them.
- J 100 % of the respondent replied that their banks properly analyses the borrowers liabilities and equity strength before disbursing loan.
- J The result shows that both the commercial banks preferred fixed assets in the form of collateral while disbursing loans and besides that plant and machinery, stocks and shares are also held as collateral.
- J 30% respondents replied that the relation with top authority sometimes influenced the loan decision rather than the credit appraisal but 70% said not influenced in loan decision according to the relation with top authority.
- J 100% respondents agreed on that the past record of the borrower was analyzed before floating loan as well as installment payment ability and regular income mechanism of the borrower was ensured while granting credit.
- J 90% respondents thought that sufficient collateral was the basis of floating loan but 10% respondents were not agreed with that.
- J Almost all the respondents replied that government securities like treasury bills are the number one choices of investment for commercial banks. Inter bank lending are the second choices and corporate shares are the third choices for investment.
- J The 90% of the respondents considered the rate of return as the number one factor of choosing the investment alternative. Risk factor, liquidity and availability were second, third and fourth choices respectively.

- ) The credibility of the borrowing bank is the important factor in this type of investment form. The interest rate and the maturity period are the next important factors that affect the inter banking lending.
- ) Out of the total respondents 80% of them replied that cash in vault and balances with NRB are the first sources of the liquidity of the commercial banks.
- ) 80% of the respondents replied that statutory liquidity position affects the lending opportunities of the commercial banks.

#### **4.11 Major Findings of the study**

A study of the five year period of total deposit of Kumari Bank shows the increment every year. The total deposit was Rs.2513.14 million in the year 2002/03 which rose to Rs.10, 557.42 in the final year of the study i.e. 2006/07. Kumari Bank is able to increase the total deposit with the increase of all types of deposit. Majority of total deposit consist of saving and call deposit but still the amount of interest free deposit cannot be neglected.

The study of the total deposit of Siddhartha Bank Limited shows the increment in the total deposit with increase in all types of deposit. The total deposit in the year 2002/03 was Rs.391.68million which rose to Rs.6, 625.08million in the year 25006/07. The deposit composition revealed that saving and call deposit holds majority of the total deposit.

The study of the loan and advances for the study period shows the increment in the total credit of the Kumari Bank. The total credit for the study period is Rs.27, 586.78 million. The net loan i.e. total loan after deducting the mandatory provision is almost equal to total loan before provision which shows that the amount of bad debts is very low in

Kumari Bank Limited. The segregation of loans and advances shows that 99% of the total loan is performing loan and only 1% is the non performing loan. The ratio of the total loan and advances on total deposit shows that the total loan is 85.73% of the total deposit in an average for the study period. The correlation coefficient between total deposit and loan is 0.99 which indicates the variables are positively related i.e. increase in deposit leads to increase in deposit.

The study of total loan and advances of Siddhartha Bank shows the increment of loan and advance ever year from Rs.629.02million in the year 2002/03 to Rs.6319.73 million in the year 2006/07. It is clear from the analysis that Siddhartha Bank is able to effectively mobilize its deposit in the form of loan and advances. The classification of loan on the basis of performance shows that 99% of the total loan of the bank is performing loan with only 1% of non performing loan. The correlation coefficient between total deposit and loan is 0.99 which indicates the variables are positively related i.e. increase in deposit leads to increase in deposit.

Provision is the certain portion of the total profit allocated for the safeguard from the adverse effect of default of loan. The study shows that provision of Kumari Bank is increasing every year but in decreasing ratio. The average ratio of provision to total deposit is 1.51% for the study period.

The analysis of the provision of Siddhartha Bank shows that in the year 2002/03 the provision was only 1% which indicates bank had only performing loan. But in the following year the percentage rose to 1.53% and 2.43% in the year 2003/04 and 2004/05 respectively and to 2.07% in the year 2005/06. The bank is able to reduce the ratio to 1.54% in the next year which indicates decrease in the non performing loan.

The total investment of Kumari Bank for the study period i.e. 2002/03 to 2006/07 stands to Rs.5, 670.66 million. The total investment is increasing every year. The bank has been able to increase the total investment of Rs.400million in 2002/03 to Rs.1600million in the five years of the study period. The investment of Kumari Bank comprises mostly of the government securities and bonds, and the investment in the foreign banks. The bank has the good ratio of total investment to total deposit. The ratio of total investment to total deposit is 18.03% in the average for the study period. The correlation of total investment and total deposit is .97 which indicates the variables are positively related i.e. increase in deposit leads to increase in investment.

The investment position of Siddhartha Bank is increasing every year. The rate of increase of the total investment is very significant, the bank was able to increase its total investment from Rs.3.77million in the year 2002/03 to Rs.865million in the period of five year time. The investment portfolio of Siddhartha Bank mostly of government securities and bonds and the investment in local institution being the second desirable option of investment. The average ratio of total investment to total deposit for the five years period is 9.10 % only which indicates the bank is not open to investment as form of deposit mobilization. The correlation of total investment and total deposit is .97 which indicates the variables are positively related i.e. increase in deposit leads to increase in investment.

Besides regular investment tools money at call and short notices are also another form of investment for commercial banks. The investments of Kumari Bank in money at call only Rs.607 million for the period of five years. Kumari Bank did not invest in such options for the first two years. The ratio of total money at call to total deposit is only 1% with an average of 1.37% for the period of five years. The correlation of total other investment

and total deposit is .93 which indicates the variables are positively related i.e. increase in deposit leads to increase in other investment.

In the investment in money at call and short notices Siddhartha Bank is more open. The bank's such investment stands to total of Rs.628million for the five year period and with increasing in such investment every year. The total money at call to total deposit ratio is 9.30% in average for the study period. The correlation of total other investment and total deposit is .49 which indicates the variables are positively related i.e. increase in deposit leads to increase in other investment.

The cash and bank balances are the liquid cash maintained in different forms like cash in vault, bank balances and balances with Nepal Rastra Bank. The analysis of the cash position of Kumari Bank shows that the bank has maintained balances in different headings. The total of such balances for the period of five years is Rs.2481.42million which is 8.86% of the total deposit in average for five years. The ratio of total cash balances to total deposit shows that Kumari Bank has maintained satisfactory cash reserve ratio throughout the study period.

The cash and bank balances of Siddhartha Bank Limited is only Rs862.72 million in total for the study period. The ratio of cash and bank balances to total deposit is only 5.71% in average for the period of the study. Similarly in the year 2005/06 it was only 2.96% of the total deposit which is below the statutory requirement of Nepal Rastra Bank.

The interest income of Kumari Bank is from different methods of deposit mobilization is Rs.2392.01 million for the period of five year. The interest income is increasing every year. The interest earned from the loan and advances hold the majority of the portion of the interest income which stands to Rs.2176.37 million for the period of the five years.

The interest earned on loan and advances is almost 90% of the total interest income. Interest from investment is the second largest source of interest income of Kumari Bank Limited.

The total interest income of Siddhartha Bank is Rs.1122.76million which is in increasing trend every year. The interest from loan and advances is also the major source of interest income for Siddhartha Bank Limited with Rs.1005.63million out of the total income interest. The interest income stands to be over 90% of the total interest income. The second largest source of interest income is interest from investment which is Rs. 95.41million for five years. The interest from investment has decreased but in the year 2006/07 it has increased.

Interest expenses are the interest paid on the deposit collected by commercial banks, it also includes the interest paid on the borrowings. The total interest expense of Kumari Bank is Rs.1231.07 million for the study period. The interest paid on the fixed deposit is Rs.507million which is 41% in average. The second largest interest is paid on call deposits which amount to Rs.446million, 32% of the total interest expenses. The total interest paid on the saving deposit is Rs.253million, 20% of the total interest income. The actual cost of deposit is 3.74% in the average for the period of five years which explains that the bank's actual interest an expense is on the deposit is 3.74% and the banks pays average interest of 3.74% for its deposit.

The total interest expense of Siddhartha Bank is Rs.568.5 million for the study period. The interest paid on the fixed deposit is Rs.265.35million which is 46% in average. The second largest interest is paid on call deposits which amount to Rs.155.61million, 27% of the total interest expenses. The total interest paid on the saving deposit is

Rs.119.00million, 20% of the total interest income. The actual cost of deposit of the bank is 3.13% in average for the period of five years.

The return on the loan and advances of Kumari Bank is 1.36 % in average for the period of five years. The ratio of return on loan and advances are increasing every year. The average ratio of interest earned on total loans is 7.88%. The return on loans in the form of interest is increasing every year except for the final year of the study period. On the other hand the return on investment is also is increasing every year. The average ratio for the period is 6.57%. Likewise the interest earned in the investment in the beginning was 1.85% of the total investment which decreased to 2.68% at the end of the study. The average ratio of return on total investment in the form of interest is 7.06% of the total investment.

The return on the loan and advances of Siddhartha Bank are very fluctuating. The average ratio is 1.39%, the return is decreasing every year. The return in the form of interest is also fluctuating every year. The average ratio of interest income in loan is 6.12% of the total loan. The average return on the total investment is 17.42%. The return is in decreasing trend but it was improved in the year 2006/07. The bank is able to collect good amount of profit in the investment, the average interest earned on the total investment is 4.89% of the total investment.

The average ratio of interest earned from other investment to total investment is 5.82% of Kumari Bank and 3.32% for Siddhartha Bank.

# **CHAPTER – V**

## **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary**

Commercial banks are the financial institution established under law whose primary functions is to accept deposit and mobilize that deposit in the form of loans and advances and investment in various forms. Commercial banks are the institution that monetizes the economy.

The history of banking can be traced to the ancient age in the form of money lenders which is also the case in the banking history of Nepal. The modern banking system started with the establishment of Nepal Bank Limited in 15 November 1937 grew with the establishment of Nepal Rastra Bank in 14 Baishkak 2012. The banking sector entered a new era with the establishment of Nepal Arab Bank Limited (renamed as Nabil Bank Limited) in 16 July 1984. The number of commercial banks has risen to 27 with many of the commercial bank established with hundred percent of Nepalese Promoters without the partnership of foreign capital.

In the context with more than 2 dozens commercial banks operating in the market competition has increased in doing the business. As a result collecting deposits and



mobilizing them has become a challenge. Again for the local banks operating with local knowledge and capital it was an immense challenge to run the business.

This study focuses on the deposit collection and mobilization of the commercial banks with reference to Kumari Bank and Siddhartha Bank Limited which are the commercial banks started solely with Nepalese promoters and their capital for the period of five years.

## **5.2 Conclusion**

Deposits are the oxygen for commercial banks and its mobilization in another equally important aspect of commercial banks. After conducting the study with various tools following conclusions can be drawn:

- The deposit positions of commercial banks are increasing every year. More and more people are using banking system and depositing cash in commercial banks. The deposit collection mechanisms of commercial banks are properly executed. In the context of the sample bank Kumari Bank is able to collect more amount of deposit than Siddhartha Bank.
- The commercial banks are able to collect deposit in all form current, saving fixed and call. The majority portion of the total deposit is dominated by call deposit which is over 30% of the total deposit and after that saving deposit comprises over 20% of the total deposit. The portion of interest free deposit cannot also be neglected, commercial banks are able to increase such type of deposits also.
- The loans and advances of commercial banks are in increasing trend. The total loan of sample banks is Rs.42 million out of total deposit of Rs.47million. This shows that commercial banks are able to mobilize deposits in the form of loan and

advances. Also there is positive correlation between total deposit and loan and advances. In the comparison of both sample bank Kumari Bank is able to grant more credit in the form of loan and advances.

- The loan management of the sample banks are also satisfactory. The amount of performing loan is almost 90% of the total loan. Also the loan and advances are positively related to the total deposit, this shows that commercial banks are able to manage their loans. The lesser amount of non performing loan shows that commercial banks are able to invest in the good opportunities in the form of loans, and able are able recover their loans. In terms of non performing loans, Siddhartha Bank has slightly higher ratio than Kumari Bank.
- After loans and advances commercial banks has mobilized their funds in direct investment and other investment also. Investment in government securities and treasury bills are the second important tools of deposit mobilization. The ratio of investment of investment Kumari Bank is greater than that of Siddhartha Bank, which shows that Kumari Bank is more liberal in investing in different financial tools.
- The liquidity position of Kumari Bank is better than Siddhartha Bank Limited because it has higher amount of cash and bank balances than Siddhartha Bank.
- The interest income of commercial banks is also increasing every year. In this respect also Kumari Bank is able to earn more interest than Siddhartha Bank. The total interest income of commercial bank comprises largely of interest earned from loans and advances, over 90% of the interest income comprises of the income from loan which is also the same in the case of the sample banks.

- Interest expenses of the commercial banks largely consist of the interest paid on the deposit collected. Interest on the call deposit is the largest in the commercial banks. In comparison of the sample bank Kumari Bank has higher interest expenses than Siddhartha Bank.
- Siddhartha Bank has high return on loans and advances ratio than that of Kumari Bank.
- Siddhartha Bank has high return on investment ratio than that of Kumai Bank.
- Kumari Bank is able to collect more interest from loan and advances than Siddhartha Bank. But the interest from investment of Siddhartha Bank is greater than Kumari Bank.

### **5.3 Recommendations**

Deposits are like the oxygen for commercial banks, without which commercial banks cannot operate and do business. The number of commercial banks has risen sharply these days with more than 2 dozens commercial banks number of finance companies, development banks and other financial institution operating in the market, commercial banks faces the acute competition in terms of deposit collection. Similarly collecting deposit is not sufficient mobilizing them in the small competitive market and earning ample amount of return is another challenge. On the basis of analysis and findings of the study, following suggestions and recommendations can be outlined:

- Commercial banks should increase the rate of interest offered in deposit to attract more customers because newly established banks and other financial institution are offering more interest rate.

- Commercial should seek newer alternative of investment besides traditional ones to move away from the limited market. Investing in hydro projects could be an alternative.
- Commercial banks should review their loans and investment strategy and policy to increase the amount of deposit mobilization. Similarly commercial banks should come up with newer products to compete in the cut throat competition and to stand the challenged rising from the entry of international banks after the year 2010.
- Commercial Banks should conduct a market research on a periodic basis to identify and attract the potential borrowers by using various promotional tools.
- Nepal Rastra Bank being the central bank should increase the supervisory and regulatory role towards commercial banks and financial banks so that mis-management and can be identified and rectified in time which in turn makes the general public secured about their money.
- Commercial banks should not provide excess credit facility to a single borrower and the banking norms and practices should not be neglected in the pressure of competition.
- The commercial banks should increase their branch networks outside the valley also as at present most of the commercial banks are concentrated inside the valley only. Branches should be extended to gain excess larger number of people in the village which is also justified by the amount of inward remittance whose beneficiary are mostly the people of the villages.

## **ANNEX – I**

### ***Questionnaires Given to the Employees of.....Bank Limited***

Dear respondents (employees),

The following questions have been put forwarded to you for your independent views and opinions about the.....Bank Limited. The responses and views obtained from your side will be kept confidential and will be used for this study purpose only. Please be kind and provide the rational information on the basis of their performances without hesitation. Thank You.

-----  
(Researcher)

#### **A. Personal Profile**

Name:.....

Address:.....

#### **B. Questionnaires for sample survey**

1. Which form of deposit is more emphasized by your bank?  
a) Saving       b) Current       C) Call       d ) Others
  
2. Which is the important factor in deposit collection?  
a) Interest Rate       b) Minimum Balance       c) other services provided by bank   
d)Bank's market Reputation
  
3. Are the promotional schemes other than banking service(lottery) are effective to

increase the amount of deposit ?

a) Yes                       b) No                       c) I don't know

4. Should those schemes be included in the banking sectors?  
a) Yes                       b) No                       c) I don't know
5. Does your bank analyses borrower's liability and equity strength before disbursing loan?  
a) Yes                       b) No                       c) I don't know
6. The past credit standing of the borrower is analyzed before floating loan.  
a) Yes                       b) No                       c) I don't know
7. What are the major forms of security for providing loan?  
a) Land and building     b) Plant and Machinery     c) Stock   
d) others (specify).....
8. Does the relation to the top authority sometimes influences in loan decision rather than the credit appraisal?  
a) Yes                       b) No                       c) I don't know
9. Is the installment payment ability and regular income mechanism of the borrower is ensured while granting credit?  
a) Yes                       b) No                       c) I don't know
10. Does the bank take sufficient collateral as the basis for floating loan here?  
a) Yes                       b) No                       c) I don't know
11. Does your bank has the system of periodic valuation of the collateral and the loan?  
a) Yes                       b) No                       c) I don't know
12. Does your bank make provision for loan loss?  
a) Yes                       b) No                       c) I don't know
13. What are the major forms of investment of your bank?  
a) Government Securities     b) Corporate Securities   
c) Treasury Bills   
d) Others(specify).....
14. What are the major factors that determine the investment options?  
a) Interest rate                       b) Risk                       c) Liquidity                       d) Availability

15. What determines the inter bank placement?
- a) Interest rate
  - b) Credibility of borrower bank
  - c) Maturity
  - d) Liquidity
16. What are the major proffered sources of liquidity?
- a) Cash at vault
  - b) NRB balance
  - c) Bank balances
17. Does the statutory liquidity position affect the deposit mobilization of the banks?
- a) Yes
  - b) No
  - c) I don't know

## ANNEX – II

<b>Total number of Respondents:</b>	<b>30</b>	
	<b>Nos</b>	<b>%</b>
<b>1) Which form of deposit is more emphasized by your bank?</b>		
a) Saving Deposits	25	85
b) Current Deposits		
c) Fixed Deposits		
d) Others		
<b>2) Which is the important factor in deposit collection?</b>		
a) Interest Rate	27	90
b) Minimum Balance	1	3.33
c) other services provided by bank	1	3.33
d) Bank's market Reputation	1	3.33
<b>3) Are the promotional schemes other than banking service (lottery) are effective to increase the amount of deposit ?</b>		
a) Yes	20	66.67
b) No	8	26.67
c) I don't Know	2	6.66
<b>4) Should those schemes be included in the banking sectors?</b>		
a) Yes	15	50
b) No	15	50
c) I don't Know	-	-
<b>5) Does your bank analyses borrower's liability and equity strength before disbursing loan?</b>		
a) Yes	30	100
b) No	-	-
c) I don't Know	-	-
<b>6) The past credit standing of the borrower is analyzed before floating loan.</b>		
a) Yes	30	100
b) No	-	-
c) I don't Know	-	-
<b>7) What are the major forms of security for providing loan?</b>		
a) Land and building	20	66.67
b) Plant and Machinery	5	16.67
c) Stock	3	10.00
d) Others	2	6.66



<b>8) Does the relation to the top authority sometimes influences in loan decision rather than the credit appraisal?</b>		
a) Yes	9	30
b) No	21	70
c) I don't Know		
<b>9) Is the installment payment ability and regular income mechanism of the borrower is ensured while granting credit?</b>		
a) Yes	30	100
b) No	-	-
c) I don't Know	-	-
<b>10) Does the bank take sufficient collateral as the basis for floating loan here?</b>		
a) Yes	27	90
b) No	3	30
c) I don't Know	-	-
<b>11) Does your bank has the system of periodic valuation of the collateral and the loan?</b>		
a) Yes	26	86.67
b) No	3	10.00
c) I don't Know	1	3.33
<b>12) Does your bank make provision for loan loss?</b>		
a) Yes	29	96.67
b) No	1	3.33
c) I don't Know	-	-
<b>13) What are the major forms of investment of your bank?</b>		
a) Government Securities	14	46.67
b) Corporate Securities	1	3.33
c) Treasury Bills	14	16.67
d) Others(specify).....	1	3.33
<b>14) What are the major factors that determine the investment options?</b>		
a) Interest rate	27	90
b) Risk	1	1
c) Liquidity	1	1
d) Availability	1	1
<b>15) What determines the inter bank placement?</b>		
a) Interest rate	11	36.67
b) Credibility of borrower bank	10	33.33
c) Maturity	5	16.67
d) Liquidity	4	13.33

<b>16)What are the major proffered sources of liquidity?</b>		
a) Cash at vault	24	80
b) NRB balance	3	10
c) Bank balances	3	10
<b>17)Does the statutory liquidity position affect the deposit mobilization of the banks?</b>		
a) Yes	24	80
b) No	6	20
c) I don't Know	-	-

## ANNEX - III

$$1)\% \text{ change} = \frac{t_{n+1}-t_1}{t_1} \times 100$$

where n = no of years

t = deposit, loan etc

$$2)\text{Total Loan and advances to Total Deposit Ratio} = \frac{\text{Total Loan}}{\text{Total Deposit}} \times 100$$

### Kumari Bank

- i) Year 2002/03 =  $\frac{2137.58}{2513.14} \times 100 = 85.06\%$   
 ii) Year 2003/04 =  $\frac{3697.98}{4807.94} \times 100 = 76.91\%$   
 iii) Year 2004/05 =  $\frac{5681.04}{6268.95} \times 100 = 90.62\%$   
 iv) Year 2005/06 =  $\frac{7707.78}{7768.96} \times 100 = 90.20\%$   
 v) Year 2006/07 =  $\frac{9062.43}{10557.42} \times 100 = 85.84\%$

### Siddhartha Bank

- i) Year 2002/03 =  $\frac{629.02}{391.68} \times 100 = 160.60\%$   
 ii) Year 2003/04 =  $\frac{1567.83}{1291.31} \times 100 = 124.41\%$   
 iii) Year 2004/05 =  $\frac{2637.93}{2461.92} \times 100 = 107.15\%$   
 iv) Year 2005/06 =  $\frac{3869.27}{3918.08} \times 100 = 98.75\%$   
 v) Year 2006/07 =  $\frac{6319.73}{6625.08} \times 100 = 95.39\%$

$$\text{Average ratio} = \frac{\text{Year 1} + \text{Year 2} + \text{Year 3} + \text{Year 4} + \text{Year 5}}{5}$$

$$\text{Kumari Bank} = \frac{85.06 + 76.91 + 90.62 + 90.20 + 84.85}{5} = 85.73\%$$

$$\text{Siddhartha Bank} = \frac{160.60 + 124.41 + 107.15 + 98.75 + 95.39}{5} = 116.66\%$$

$$3)\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}} \times 100$$

### Kumari Bank

- i) Year 2002/03 =  $\frac{423.54}{2513.14} \times 100 = 16.85\%$   
 ii) Year 2003/04 =  $\frac{983.5}{4807.94} \times 100 = 20.46\%$   
 iii) Year 2004/05 =  $\frac{1190.27}{6268.95} \times 100 = 18.99\%$   
 iv) Year 2005/06 =  $\frac{1394.94}{7768.96} \times 100 = 17.96\%$   
 v) Year 2006/07 =  $\frac{1678.41}{15.90} \times 100 = 15.90\%$

### Siddhartha Bank

- i) Year 2002/03 =  $\frac{3.77}{391.68} \times 100 = 0.96\%$   
 ii) Year 2003/04 =  $\frac{42.05}{1291.31} \times 100 = 3.26\%$   
 iii) Year 2004/05 =  $\frac{286.62}{2461.92} \times 100 = 11.64\%$   
 iv) Year 2005/06 =  $\frac{650.97}{3918.08} \times 100 = 16.61\%$   
 v) Year 2006/07 =  $\frac{865.18}{625.08} \times 100 = 13.06\%$

$$\text{Average ratio} = \frac{\text{Year 1} + \text{Year 2} + \text{Year 3} + \text{Year 4} + \text{Year 5}}{5}$$

$$\text{Kumari Bank} = \frac{16.85 + 20.46 + 18.99 + 17.96 + 15.90}{5} = 18.03\%$$

$$\text{Siddhartha Bank} = \frac{0.96 + 3.26 + 11.64 + 16.61 + 13.06}{5} = 9.10\%$$

**4) Total Other Investment (Money at Call) to Total Deposit Ratio =  $\frac{\text{Total Money at Call}}{\text{Total Deposit}}$**

Kumari Bank

$$\text{i) Year 2002/03} = \frac{-}{2513.14} \times 100 = -\%$$

$$\text{ii) Year 2003/04} = \frac{-}{4807.94} \times 100 = -\%$$

$$\text{iii) Year 2004/05} = \frac{90}{6268.95} \times 100 = 1.44\%$$

$$\text{iv) Year 2005/06} = \frac{145}{7768.96} \times 100 = 1.87\%$$

$$\text{v) Year 2006/07} = \frac{372}{10557.42} \times 100 = 3.52\%$$

Siddhartha Bank

$$\text{i) Year 2002/03} = \frac{107.07}{391.68} \times 100 = 26.06\%$$

$$\text{ii) Year 2003/04} = \frac{174.83}{1291.31} \times 100 = 13.54\%$$

$$\text{iii) Year 2004/05} = \frac{22.47}{2461.92} \times 100 = 0.91\%$$

$$\text{iv) Year 2005/06} = \frac{100.00}{3918.08} \times 100 = 2.55\%$$

$$\text{v) Year 2006/07} = \frac{229.44}{6625.08} \times 100 = 3.46\%$$

$$\text{Average ratio} = \frac{\text{Year 1} + \text{Year 2} + \text{Year 3} + \text{Year 4} + \text{Year 5}}{5}$$

$$\text{Kumari Bank} = \frac{0 + 0 + 1.44 + 1.87 + 3.52}{5} = 1.37\%$$

$$\text{Siddhartha Bank} = \frac{26.06 + 13.54 + 0.91 + 2.55 + 3.46}{5} = 9.30\%$$

**5) Total Cash and Bank Balances to Total Deposit Ratio =  $\frac{\text{Total Cash and Bank Balances}}{\text{Total Deposit}}$**

Kumari Bank

$$\text{i) Year 2002/03} = \frac{291.69}{2513.14} \times 100 = 11.61\%$$

$$\text{ii) Year 2003/04} = \frac{685.47}{4807.94} \times 100 = 14.26\%$$

$$\text{iii) Year 2004/05} = \frac{443.36}{6268.95} \times 100 = 7.07\%$$

$$\text{iv) Year 2005/06} = \frac{389.62}{7768.96} \times 100 = 5.02\%$$

$$\text{v) Year 2006/07} = \frac{672.1}{10557.42} \times 100 = 6.37\%$$

Siddhartha Bank

$$\text{i) Year 2002/03} = \frac{27.07}{391.68} \times 100 = 6.91\%$$

$$\text{ii) Year 2003/04} = \frac{71.83}{1291.31} \times 100 = 5.56\%$$

$$\text{iii) Year 2004/05} = \frac{130.71}{2461.92} \times 100 = 5.31\%$$

$$\text{iv) Year 2005/06} = \frac{115.93}{3918.08} \times 100 = 2.96\%$$

$$\text{v) Year 2006/07} = \frac{517.22}{6625.08} \times 100 = 7.81\%$$

$$\text{Average ratio} = \frac{\text{Year 1} + \text{Year 2} + \text{Year 3} + \text{Year 4} + \text{Year 5}}{5}$$

$$\text{Kumari Bank} = \frac{11.61 + 14.26 + 7.07 + 5.02 + 6.37}{5} = 8.86\%$$

$$\text{Siddhartha Bank} = \frac{6.91 + 5.56 + 5.31 + 2.96 + 7.81}{5} = 5.71\%$$

**6) Analysis of Interest income on loan and advances to Total Interest =  $\frac{\text{Total Interest Income on loan and advances}}{\text{Total Interest Income}}$**

Kumari Bank

$$\text{i) Year 2002/03} = \frac{168.13}{185.09} \times 100 = 91.34\%$$

$$\text{ii) Year 2003/04} = \frac{280.7}{310.21} \times 100 = 68.68\%$$

$$\text{iii) Year 2004/05} = \frac{462.72}{499.91} \times 100 = 70.14\%$$

$$\text{iv) Year 2005/06} = \frac{573.68}{605.52} \times 100 = 88.87\%$$

$$\text{v) Year 2006/07} = \frac{691.14}{792.28} \times 100 = 91.15\%$$

Siddhartha Bank

$$\text{i) Year 2002/03} = \frac{16.75}{23.88} \times 100 = 70.14\%$$

$$\text{ii) Year 2003/04} = \frac{108.36}{113.62} \times 100 = 95.38\%$$

$$\text{iii) Year 2004/05} = \frac{192.43}{198.18} \times 100 = 97.10\%$$

$$\text{iv) Year 2005/06} = \frac{285.34}{305.56} \times 100 = 93.39\%$$

$$\text{v) Year 2006/07} = \frac{402.75}{481.52} \times 100 = 83.65\%$$

**8) Analysis of Interest Expenses on Fixed deposit to total interest expenses =  $\frac{\text{Total Interest Income on loan and advances}}{\text{Total Interest Income}}$**

Kumari Bank

$$\text{i) Year 2002/03} = \frac{35.58}{92.94} \times 100 = 38.28\%$$

$$\text{ii) Year 2003/04} = \frac{64.35}{163.90} \times 100 = 39.26\%$$

$$\text{iii) Year 2004/05} = \frac{93.41}{240.13} \times 100 = 38.90\%$$

$$\text{iv) Year 2005/06} = \frac{161.04}{337.05} \times 100 = 47.78\%$$

$$\text{v) Year 2006/07} = \frac{153.08}{397.05} \times 100 = 38.55\%$$

Siddhartha Bank

$$\text{i) Year 2002/03} = \frac{1.07}{5.61} \times 100 = 19.07\%$$

$$\text{ii) Year 2003/04} = \frac{20.42}{45.50} \times 100 = 44.88\%$$

$$\text{iii) Year 2004/05} = \frac{47.21}{91.98} \times 100 = 51.33\%$$

$$\text{iv) Year 2005/06} = \frac{77.85}{153.70} \times 100 = 50.65\%$$

$$\text{v) Year 2006/07} = \frac{118.8}{271.71} \times 100 = 43.72\%$$

**7) Cost of Deposit =  $\frac{\text{Interest on Deposit}}{\text{Total Deposit}}$**

Kumari Bank

$$\text{i) Year 2002/03} = \frac{91.61}{2513.14} \times 100 = 3.65\%$$

$$\text{ii) Year 2003/04} = \frac{162.05}{4840.00} \times 100 = 3.37\%$$

Siddhartha Bank

$$\text{i) Year 2002/03} = \frac{5.17}{391.68} \times 100 = 1.32\%$$

$$\text{ii) Year 2003/04} = \frac{41.5}{1262.50} \times 100 = 3.21\%$$

$\text{iii) Year 2004/05} = \frac{4807.94}{6268.95} \times 100 = 3.75\%$ $\text{iv) Year 2005/06} = \frac{330.31}{7768.96} \times 100 = 4.25\%$ $\text{v) Year 2006/07} = \frac{389.28}{10557.42} \times 100 = 3.69\%$	$\text{iii) Year 2004/05} = \frac{1291.31}{2461.92} \times 100 = 3.54\%$ $\text{iv) Year 2005/06} = \frac{142.86}{3918.08} \times 100 = 3.65\%$ $\text{v) Year 2006/07} = \frac{263.18}{6625.08} \times 100 = 3.37\%$
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$$\text{Average ratio} = \frac{\text{Year 1} + \text{Year 2} + \text{Year 3} + \text{Year 4} + \text{Year 5}}{5}$$

$$\text{Kumari Bank} = \frac{3.65 + 3.37 + 3.75 + 4.25 + 3.69}{5} = 3.74\%$$

$$\text{Siddhartha Bank} = \frac{1.32 + 3.21 + 3.54 + 3.65 + 3.97}{5} = 3.13\%$$

### 8) Analysis of return on total loan and advances

$$\text{Return on loan and advances} = \frac{\text{Net Profit}}{\text{Loan and advances}}$$

#### Kumari Bank

i) Year 2002/03 = $\frac{12.47}{2137.58} \times 100 = 0.58\%$
ii) Year 2003/04 = $\frac{46.68}{3697.98} \times 100 = 1.32\%$
iii) Year 2004/05 = $\frac{87.88}{5681.01} \times 100 = 1.55\%$
iv) Year 2005/06 = $\frac{103.66}{7007.78} \times 100 = 1.48\%$
v) Year 2006/07 = $\frac{170.26}{9062.43} \times 100 = 1.88\%$

#### Siddhartha Bank

i) Year 2002/03 = $\frac{-}{629.02} \times 100 = -\%$
ii) Year 2003/04 = $\frac{17.48}{1567.83} \times 100 = 1.11\%$
iii) Year 2004/05 = $\frac{70.27}{2637.93} \times 100 = 2.66\%$
iv) Year 2005/06 = $\frac{65.25}{3869.27} \times 100 = 1.69\%$
v) Year 2006/07 = $\frac{95.36}{6319.73} \times 100 = 1.51\%$

$$\text{Average ratio} = \frac{\text{Year 1} + \text{Year 2} + \text{Year 3} + \text{Year 4} + \text{Year 5}}{5}$$

$$\text{Kumari Bank} = \frac{0.58 + 1.32 + 1.55 + 1.48 + 1.88}{5} = 1.36\%$$

$$\text{Siddhartha Bank} = \frac{0 + 1.11 + 2.66 + 1.69 + 1.51}{5} = 1.39\%$$

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