

# CHAPTER - ONE

## INTRODUCTION

### 1.1 Background of the Study

Nepal is situated in the central part of the continent of Asia, on the southern slopes of the Great Himalayan. It is said to be a stone between two boulders. It is surrounded by China to north and India to east, west and south, is one of the least developed countries in the world which is directing her efforts in accelerating the pace of her economic development. The Himalayan range is the natural beauty between Nepal and China.

The growth of banking in Nepal is not so long in comparison with other developed or developing countries. Nepal had to wait for long time to come to the present banking system. The development of any country cannot be imagined without economic activities. The development of the banking system is one of the grounds for economic development so we should take a bank as strong means for economic development. The development of the bank is interwoven with the development of a person a society and a nation. It is impossible to fulfill the needs without bank whether it is inside the nation or in foreign country whether it is individual development or business and whether it is the people or the government. So to solve the problem relating to economic development of banking system is necessary.

Banks launched its operations with marketing concept i.e. customer is the king of the market they started knocking the doors of the customer. A customer is the most important visitor on our premises. He does not depend on us. We are dependent on our business. He is a part of it. We are doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so.

For the development of any country, the financial sector of that country is responsible and must be strong. The financial sector is vast field, which comprises of banks cooperatives, insurance companies, financial companies, stock exchange, foreign exchange markets, mutual funds etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises of national economy that consequently help in reducing poverty, increase in life style of people, increase

employment opportunities and thereby developing the society and country as a whole. Thus, today's concept, the financial institutions and commercial banks has become one of the bases for the measuring level of economic development of nation.

Commercial banks are the main source which motivates people to save their earnings. Bank deals in accepting the saving of people in the form of deposit collection and invest it in the productive area. They give the loan to the people against real and financial assets. They transfer monetary sources from savers to users. In other words, they are intermediate between lender and receiver of fund they mobilize the depositor fund.

### **1.1.1 Deposit Mobilization**

In developing countries there is always shortage of the capital for the developmental activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time; people also can not undertake large business because the per capita income of the people is very low while their propensity to consume is very high. Due to the low income their saving is very low and capital formation is also very low. So their saving is not sufficient for carrying on developmental works. To achieve the higher rate of growth and per capita income, economic development should be accelerated. "Economic development may be defined in a very broad sense as a process of rising income per head through the accumulation of capital" (Johnson, 1965:11). But how capital can be accumulation in the developing countries, there are two ways of capital accumulation in the developing country, one from the external sources and other from the internal sources. From external Foreign Aid, Loan and Grants are main. While in the later financial institutions operating within the country play a dominant role. In the context of Nepal, commercial banks are the main financial institutions, which can play very important role in the resource mobilization for the economic development in the country. Trade, industry, agriculture and commerce should be developed for the economic development.

Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sector to increase employment and National productivity. Deposit mobilization is the most

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

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

Banking transaction refers to the acceptance of deposits from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period according to banking rules and regulations. This definition clearly states that Deposit Mobilization is the starting point of banking transactions. Banking activities can be increased as much as we can mobilize the accumulated deposit effectively (NRB, Nepal Bank Patrika, 2037:4-7).

Increasing the income of the low-income group of people and making them able to save more deposit mobilization helps to the collected deposit in desired sectors. Deposit depends among others, on the level of country's per capita income and its growth rate, population growth rate, interest rate on deposits or on the bank accounts, banking and financial facilities and net factor income etc. The national income is the measure of the nation from the economic activities. Saving is the excess if income over consumption. Investment is the expander made for the formulation of the fixed capital. Mobilization of saving implies transfer of resources from surplus spending units

to deficit units. In these connections, financial intermediaries play an important role in mobilization of voluntary saving. The amount of saving of a typical household in Nepal is small because the people have limited opportunities for investment. They prefer to spend savings on commodities rather than on financial assets. These restricts the process of financial intermediation, which might otherwise bring such as reduction of investment risk and increase in liquidity when capital is highly mobile internally, saving from abroad can also finance the investment need at home. When capital is not mobile internally, saving from abroad will limit investment at home.

### **1.1.2 Deposit of Nepal SBI Bank Limited**

The deposits are the main sources of raising capital, and these deposits are received in different sorts and accounts. Only that deposits which are received in the form of cash or in that of the rights to receive cash will add to the working capital of the bank. But the deposits arising out of the discounting of bills or granting loans won't add to the working capital. Hence deposits may be created either by customers or by the bank itself. The use of funds depends on the lending policy of the bank as it provides loan from the deposits it receives. The bank is not lending their own money but furnish advances from deposits that are received from the customers. The bank collects the deposits from customers and gives certain percentage of amount as interest. The bank provides security to that money from every dangerous mishappening such as loose, theft, fire, flood, etc.

The overall business of the Bank (deposits plus gross advances) reached a level of Rs. 7980.09 corer as at the end of 2068-69 as against Rs.6413.42 corer as at the end of previous year, recording a growth of Rs.1566.67 corer (24.43%). The total deposits increased by Rs.1092.18 corer to reach a level of Rs.5333.73 corer while advances increased by Rs.474.49 corer to reach a level of Rs. 2646.37 corer by the end of the reported year. In line with the conꝑ nude rise in interest rates, parꝑ clearly during the first half of the year, the cost of fund of the Bank rose from 5.18% to 5.48% in 2068-69, while yield on loan and advances improved from 12.20% to 12.73%. Yield on interest earning assets of the Bank also improved from 8.05% during the FY 2067-68 to 8.18% during the

FY 2068-69. The total number of deposit accounts registered an increase of 76,123 and reached a level of 384,767 showing an accrue on of 24.66%. Likewise, the borrowed accounts of your Bank increased by 2,245 reaching a level of 12,244 as at the end of the year.

## **1.2 Statement of the Problem**

The procedure of loan taking is very lengthy in commercial banks. Further, banks are afraid of securities in those loans other than priority sectors. For the development works, loan may be needed for long term, medium term or short term also. But commercial banks generally like to give short term loan only in other than priority sector loan. Whatever loan facility is being given by commercial banks are not sufficient. The loan and advances which commercial banks provide is very limited.

Most of the people, who can have saving, are using their saving in some unproductive sectors like to purchase land and building, to purchase jewelry etc. It is happening due to lack of proper knowledge and advertising of commercial banks. Due to the above mentioned problems, not only the deposit mobilization, but as a whole commercial banks are in hard situation to survive.

- What is the relationship between deposit and loans?
- How far the interest rates of deposits have positive relationship with the deposit collection of SBI?
- What is the increasing or decreasing trend of deposit mobilization of SBI?

## **1.3 Objectives of the Study**

The objective of the study is to examine relationship between the amount of total deposit and amount of total credit granted by the NSBI. Other specific objectives of the study are;

- To compare the performance of deposit and investment of SBI.
- To evaluate the trend of deposit and lending of SBI Bank.
- To examine the relationship/impact of interest with the deposit collection of Nepal SBI Bank Ltd.

## **1.4 Significance of the Study**

Banks and other financial institutions play important role to increase economic standard for the development of the country. Economic development becomes slow if there are incomplete and unfair banking facilities. Especially commercial banks provide different economic and technical facilities to the people who involve in business activities. Commercial banks plays major role in collection of scared small savings form depositors and transfer these funds into productive sectors for the economic development.

As the research done in any field there are several key factors that cannot be avoided, in which significance of study also occurs. Mainly this study covers the deposit and credit position of commercial banks, so it helps to reveal the financial position of banks and study occupies an important role in the series of the studies on commercial banks. The significances of the study are:

- Important to know how well the bank is utilizing its deposits.
- Important to policy formulator and also be useful for academic professionals, students particularly those involves in commerce, CA and financial institutions to formulate policies and plans on the basis of the performance of the bank.
- Important to the management party of selected bank for the evaluation of the performance of their bank and comparison with other banks.
- Important for the investors, customers (depositors, loan takers) and personnel of bank to take various decisions regarding deposits and loan advances.
- This study has been equally important to the others who are interested to know about the area. It may encourage to researcher to research further.

## **1.5 Limitations of Study**

The limitations can be point out in the following points;

- This study is mainly based on secondary data.
- The accuracy of the finding depends on the reliability of available information.
- This study covers only limited year's period i.e. only 5 fiscal years, since 2007/08 to 2011/012.

- The qualitative factors such as growth, expansion, policies, quality of services, effectiveness of management etc have been ignored.
- The availability of various resources also acts as constraints.
- This study concentrates on deposit collection and utilization of NSBI.

## **1.6 Organization of the Study**

This study has been divided into five chapters and they are as follows.

### **Chapter – One: Introduction**

The first chapter covers the Introduction such as Background of the Study, Focus of the Study, Statement of Problem, Objective of the Study, Significant of the Study, Limitation of the Study and Organization of the Study.

### **Chapter – Two: Review of Literature**

The second chapter deals about the Review of Literature which includes Conceptual Review, Review of Previous Thesis and Basis Feature of this Research.

### **Chapter – Three: Research Methodology**

The third chapter includes Research Methodology with Research Design, Sources of Data, Population and Sample, Data Collection Method and Data Analysis Tools.

### **Chapter – Four: Presentation and Analysis of Data**

The fourth chapter Data Presentation and Analysis includes the details like Deposit Positions of SBI & major Findings.

### **Chapter – Five: Summary, Conclusion & Recommendation**

This chapter includes the Summary, Conclusion and Recommendation of the study.

At the last bibliography and appendix are also included.

## **CHAPTER - TWO**

### **REVIEW OF LITERATURE**

Review of literature means reviewing research studies or other relevant propositions in related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be concluded. It is an integral mandatory process in research works. The main reason for a full review of the research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully.

The objective of this chapter is to present basic concept on deposit mobilization provided by various renowned writers through different books, journals and research papers. Various independents studies, unpublished previous thesis, article, journals are incorporated, in this chapter. Reviewing these all provides us background to research work, guidelines to deal with prospective below consecutively. Under this topic the following subject matter are reviewed.

- Conceptual Review
- Review of Journal & Articles
- Review of Previous Thesis

#### **2.1 Conceptual Framework**

##### **2.1.1 Meaning & Definition of Bank**

The word bank is used in the sense of a commercial bank. A Bank is an institution which deals with money and credit generally, bank accepts deposits from business institutions and individuals, which is mobilized into productive sectors mainly business and consumer lending. At present context, bank is not only confined to accepting deposits and disbursing loan. Nowadays, most of the bank may be engaged in different types of functions such as remittance, exchange currency, joint venture, underwriting, bank guarantee and discounting bills etc.

Bank is a financial intermediary because of accepting deposits and granting loans. Banks are the most important sources of short-term working capital for business. In modern banking system, when businesses and consumers must make payments for purchases of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. In fact, a modern bank performs such a variety of functions that it is difficult to give a precise and general definition of a bank. Some important definitions for the bank given by different personalities are as follows.

A bank means financial institution established for the transaction of money. It deals with public and lends money to the borrowers as a loan. It also creates credit and exchanges the foreign currency. It is established to fulfill certain objectives such as to facilitate public economic interest, to advance loans for the development of agriculture, industries and trade and to provide banking services to the public. (Brigham, E.F. Gapenski, L.C. & Michel, C:1999: 112).

Banking means the accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise and withdrawable by cheque, draft or otherwise.

A bank's main purpose is to support the economic growth, agriculture growth, commercial growth of the country. So we can say Bank is a financial institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature.

### **2.1.2 Commercial Banks in Nepal**

Commercial banks are very important for the development of national economy. They accept public saving as deposits and advance them as loans to the persons, business organizations and government when they required. The development of commercial banks is in increasing trend after the restoration of democracy in 1990 A.D. The first commercial bank is Nepal Bank Limited that was established in 30 Kartik 1994 B.S (1937 A.D.). And the second is RBB established in 10/10/2022 B.S.

After a long period of establishment of these two banks, NABIL Bank is the first commercial bank from the private sector. This is the first joint venture bank of Nepal also. There after many other joint venture and non joint venture banks were set up under the Commercial Bank Act, 2031 and Company Act, 2053.

Now, Thirty-One Commercial banks are operating in the country. The door is opened now for the establishment of commercial banks with new policy relating to commercial bank issued by Nepal Rastra Bank considering that banking of entrance is not favorable in the liberal and market oriented economic environment and to create the competitive environment. Thus, it is expected that the numbers of commercial banks will be increased in future. According to new policy issued by NRB, the paid up capital of new opening commercial bank at national level must be Rs. 2000 million.

If the newly opened bank is joint venture with foreign bank or financial institution, it is permitted to open new commercial banks with head office at Kathmandu valley contracting three years management with 67% investment of foreign such institution, the ratio of ownership of share will be 7:3 between founder and public respectively.

### **2.1.3 Function of Commercial Banks**

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

- Accept various types of deposits
- Borrowing raising and taking up of money
- Lending loans as well as services
- Provide guarantee of services
- Provide facility of discounting bills and promissory notes
- Provide Tele banking services
- Provide safe deposit vault
- Provide transit facility of foreign currency
- Provide remittance service
- Provide service of letter of credit (L/C), travelers cheque
- Provide facilities on bill clearing, purchase and collection services
- Provide locker facilities and other commercial services.

#### **2.1.4 Resources of Nepalese Commercial Banks**

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

- **Capital:-** So far as the capital funds its concerned, it is only a nominal source. Therefore it can not be used for investment purposes. This capital fund consists of two elements: Paid up capital and General reserve.
- **Deposit:-** Deposits are the main resources of the commercial banks for advancing loans. Deposits are received from different forms and accounts. There are mainly three types of deposits: Current, Saving and Fixed. In a developing country like Nepal, where the majority of the people are still poor, saving deposits have plays a significant role for the development of the country. Therefore the main source of raising capital is that of deposit. Ronald (1962) rightly says, “The deposits function of the banker is important because it has to aggregate small sums of money lying scattered here and there twenties, fifties and hundreds. Singly these sums have no economic efficiency what so ever but they can accomplish tasks when they are aggregated and employed by the banker.

- **Internal and External Borrowing:-** These are very important for a developing country like Nepal being an underdeveloped country. Commercial banks alone can not fulfill the necessities of the society. Therefore commercial banks are allowed to borrow from both two sources internal and external. Generally external borrowing means the borrowing from foreign bank, foreign government, International Bank for Reconstruction and Development (IBRD), International Monetary Fund (IMF) etc. Internally commercial banks can borrow from only one source that is from NRB.

### 2.1.5 Resources of Fund of Commercial Banks

#### A. Owned Funds/ Equity Capital of Bank

Following are the sources of owned funds

**Ordinary Share:-** Ordinary shares are the bank's strong and reliable sources of funds. Banks promoters issue ordinary shares to the public in fixed number. Banks collect the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholders after purchasing the issued share.

**Preference Share:-** It is that kind of share which receive dividend and after liquidation money before ordinary share. But in Nepal, bank can not issue preference share. But some situation it can issue preference share by taking permission from Nepal Rastra Bank.

**Bonus Share:-** Company issue the extra share to the shareholder from the saving from profit and reserve fund by capitalizing these funds is known as bonus share. Bank issue shares to shareholders instead of banks amount. From this share, bank collects some share of funds.

**Retained Earning:-** Banks earn profit by investing the funds in different sector through the principle of profit earning. Banks invest its fund in productive or profitable industries and business. Bank earns some amount from these investments.

**Reserve Fund:-** Bank separates some share of capital in reserve funds in the time of banking activities. The reserve funds size based on banks earning and rules and

regulation. Banks must separate some share of amount from profit in reserve fund. Banks have been earning by investing the reserve funds in liquid sector.

**Undistributed Dividend:-** Bank does not distribute all profit to the shareholders. Banks invest some amount from profit by not distributing to shareholders. By this, the invested profit makes sources of funds to the banks.

## **B. Borrowed Fund of Bank**

Bank collects the funds from another source except owned funds. Another source is borrowing from different sector. These types of funds collect borrow and debt capital. Following are the sources of the borrowed fund.

**Selling of Debenture:-** Debenture means a “Rinpatra” which is issued by company by keeping or not keeping assets securities for collection of funds. If bank need a fund, it can collect capital by issuing debenture. The money also collects bank capital, which is collected by issuing debenture.

**Deposits:-** The bank performs two-fold functions, i.e. the receipt of the deposits and granting the loans. The bank borrows money by accepting different types of deposits. The bank attracts the deposits from the public. The bank not only undertakes to take care of the deposits but also agrees to honors the demands of the depositor for withdraw of money from the deposits. The banks are accepted different types of deposit. They are:

- **Current Deposit:-** It is also known as demand deposit. A customer can open a current account with a bank by making an initial of Rs. 1. Any amount may be deposited in this account. The bank makes a small charge on the customer having current deposit account.
- **Saving Deposit:-** In this deposit, there are restriction on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week.
- **Fixed Deposit:-** A fixed deposit is one where a customer is required to keep a fixed amount with the bank for specific periods. He is not allowed to withdraw amount before expiry of the period. The rate of interest is higher than on other deposit account during this period the bank is free to make use this money for granting loans and advances.

- **Call Deposit:** In deposit terminology, the term Call Deposit refers to a specific type of interest bearing investment account that allows a person to withdraw their money from the account without a penalty. In many cases the money can be withdrawn from a Call Deposit account without prior notification to the bank.

**Loan from the Central Bank:-** NRB is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulations directed\ by the NRB. In the time of necessity, NRB provides the loans for the banks. The loan granted by the central bank is a bank capital.

**Loan from the Financial Institutions:-** Financial institutions also provide loan for the banks. Bank can receive loans from financial institutions in the form of borrowing. The loan granted by the financial institutions is also a bank capital.

**Loan from Commercial Banks:-** If banks need money, it receives money from other commercial bank also in the form of borrowing. Banks fulfill the need of cash by taking loan from other banks. It is also the types of bank capital.

### **2.1.6 Meaning & Concept of Deposit**

Deposit is the sum of money lodged with a bank, discount house or other financial institution (Shrestha & Bhandari, 2059, p 28). Deposit is nothing more than the assets of an individual which is given to the bank for safe-keeping with an obligation to get something (interest) from it. To a bank these deposits are liabilities. Commercial bank Act 2031 (1974) defines “Deposits” as the amount deposited in a current, savings or fixed accounts of a bank or financial institution (Bhandari, 2004: 73).

The deposits are subject to withdrawals by means of cheque on a short notice by customers. There are several restrictions on these deposits, regarding the amount of deposit, number of withdrawal etc. These are considered more as investments and hence they earn some interest. The rate of interest varies depending on the nature of the deposits. The bank attracts deposits from customers by offering different rates of interest and different kinds of facilities. Though the bank plays an important role in influencing the customer to save and open deposit accounts with it, it is ultimately the customer who decides whether s/he should deposit his surplus funds in current deposit a/c, saving deposits or fixed/time deposit a/c. Bank deposits arise in two ways. When the banker

receives cash, it credits the customer's account, it is known as a primary or a simple deposit. People deposit cash in the banking system and thereby convert one form of money, cash, into another form, bank money. They prefer to keep their money in deposit accounts and issue cheques against them to their creditors. Deposits also arise when customers are granted accommodation in the form of loans. When a bank grants a loan to a customer it doesn't usually pay cash but simply credits the customer's account with the amount of loan. Of course, there is nothing that prevents the borrower from withdrawing the entire amount of borrowing in cash but quite often s/he retains the amount with the bank as deposit.

### **2.1.7 Deposit Collection**

For a commercial bank deposit is the most important source of the liquidity. For a bank's financial strength it is treated as a barometer. In the words of Eugene, A bank's deposits are the amount that it owes to its customers. Though the constitution the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposit. The volume of funds that management will use for creating income through loans and investment is determined largely by the bank's policy governing deposits. In other words when the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposit creating powers of commercial banks forces to raise the assets along with the liability side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by bank management. There are regular changes on this view in the modern banking industry. Thus banks have evolved from relatively passive acceptors of deposits to active bidders for funds. Deposits are one of the aspects of the bank liabilities that management has been influencing through deliberate action (Brigham, E.F. Gapenski, L.C.. & Michel, 1999:68).

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

**Current Deposit:-** A current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand. The account never becomes time barred, because the limitation does not run until a demand is made by the customer on the bank for the payment of deposit. These accounts are generally opened by business houses, public institutions, corporate bodies and other organization whose banking transactions are numerous and frequent. As these deposits are payable on demand, banker is obliged to keep larger cash reserves than are needed in the case of fixed and savings deposits. This type of account is just a facility offered by the bank to its customers. So such deposit doesn't yield any interest return. The deposit in which an amount is immediately paid at the time of any account holder's demand is called demand deposit (Bhandari, 2004, : 73). Its transaction is continual & a very small portion of such deposit can be invested in the productive sector. Though the bank cannot gain significant profit by investing it in new sector, this is one of the facilities given to the customer. Therefore, the bank doesn't give interest on this account. For this study this types of deposit is not suitable.

**Saving Deposit:-** Saving account means "An account of amounts deposited in a bank for savings purposes." The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule. Similarly there is also divergence as to how much amount of money can be withdrawn. But if the customers want to withdraw more money from the bank which is not allowed by it but if she/he gives pre-information to the banks, s/he can withdraw more money. The bank fixes the minimum and maximum amount of withdraw able through a cheque from this deposit. If the bank goes into liquidation, priority is given to the saving deposit than current and fixed deposits while repaying the liabilities.

**Fixed Deposit:-** Fixed deposits constitute a very important resource for banks as bank need not keep greater reserve in respect of such deposits. Under the commercial Bank Act 2031 (1974), "Fixed account means as account of amounts deposited in a bank for

certain period of time.” The customers opening such account deposit their money in the account for a fixed period. Usually, only the person or institution who wants to gain more interest opens such type of account. High interest rate is paid to this deposit as compare to saving deposits. The bank and the customer can take benefit from this deposit. The bank invests this money on the productive sector and gains profit and the customer too can be made his financial transaction stronger by getting more interest from this deposit. The principal amount with interest must be returned to the customer after expiry of fixed time. In England these deposits are repayable subject to a period of notice and hence known as time deposit or time liabilities means that these are withdraw able subject to a period of notice and not on demand (Khadka, S, and Singh, H, 2001,: 72). Fixed deposit receipt is not transferable by endorsement and certainly not negotiable. However the debt covered by the fixed deposit receipts can be assigned. Bank generally gives loans up to 90% of the deposit against the security of the deposit. For this bank charge some interest higher than the interest allowed on the deposit.

**Call Deposit:** In deposit terminology, the term Call Deposit refers to a specific type of interest bearing investment account that allows a person to withdraw their money from the account without a penalty. In many cases the money can be withdrawn from a Call Deposit account without prior notification to the bank. For example, a person with a Call Deposit account, besides earning a favorable rate of interest, also has considerably more access to their money than people with their money invested in other types of accounts. As a result, a Call Deposit account has considerable advantages over other types of interest bearing accounts when liquidity is required. A Call Deposit account allows the holder instant access to their account and the ability to withdraw their money at any time without having to pay an early withdrawal penalty or inform the bank in advance of their intention to withdraw their funds. Call Deposit accounts generally have a minimum balance which must be maintained in order to take advantage of the benefits.

### **2.1.8 Mobilization of Deposit**

Banks utilize its funds in suitable area and right sector. Banks can not achieve its goals until and unless it mobilizes its deposits in right sectors and by performing different activities. Much kind of activities and other thing can origin for the purpose of receiving

invest from the bank. But bank should separate the useful and profitable sector for mobilization its deposits. Banker being only a financial intermediary, we will not be able to make any profit unless he has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder.

As commercial bank they are expected to make profit. If there is no profit, there will be adverse criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives. (Hampton, J. 1995: 223).

Therefore, banks should mobilize its deposits in suitable and profitable banking activities and right sector. Generally bank has mobilized its deposits in the following activities.

**Liquid Funds:-** A bank has kept a volume of amount in liquid funds. The funds have so many responsibilities in banking activities liquid funds has covered following transactions.

- Cash in hand
- Balance with NRB
- Balance with domestic bank
- Call money

**Investment:-** Bank invests its fund in different banking activities and different fields. Many types of fields are shown in market for investment. But banks invest its funds in profitable and safety activities. Bank invests its fund in the following titles.

- Share and debenture
- Government securities

- Joint-venture

**Loan and Advances:-** Banks mobilize its funds or deposits by providing different types of loan and advances to customers, by charging fixed interest. Different types of loan and advances are

- To government enterprises
- To provide enterprises

Bank manages the different types of loans i.e. providing loan, business loan, and traditional loan to priority area.

**Fixed Assets:-** Land and buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicle, computer, and other concerned instrument, which are related to banking activities. Bank cannot take direct gain from these assets, but bank should buy it. A bank has a need of fund to purchase fixed assets for the new branches of the bank.

**Administrative and Miscellaneous Expenses:-** Bank should manage funds for administrative and other miscellaneous expenses. The administrative expenses are as follows.

- Salary of Employee
- Allowances
- Pension
- Advertisement
- Stationery
- Provident Fund
- Rent
- Income tax
- Donation
- Insurance
- Tour expenses
- Commission

The miscellaneous expenses are

- To distribute the dividend to shareholders
- To bear the loss on sale and purchase of banking assets
- Maintenance expenses
- To pay the interest on borrowed amount
- Reserve fund

In this way, bank mobilizes its deposits by performing different activities to achieve its desired goals i.e. earning profit. Banks are able to earn sufficient profit by mobilizing its deposits in proper way into the different profitable sector. It can utilize its collected deposits as well as own funds in all banking activities by performing effective deposit mobilization procedure.

### **2.1.9 Need for Deposit Mobilization**

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report, “Deposit Mobilization why and how” (NRB Bankers Prakashan, 2002: 24) Group “A” states the following points as the need for deposit mobilization.

- The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can flow forwards buying unnecessary and luxury goods. So , the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.
- Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms within the country.
- To increase saving is to mobilize deposit. It is because if the production of agricultural and industrial products increases, it gives additional income, which helps to save more, and ultimately it plays a good role in deposit mobilization.
- It is much more important to canalize the collected deposit in the priority sectors of a country. In our developing country we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.

- Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors but also in other sector like food grains, gold and silver etc. Though these loans are traditional in nature and are not helpful to increase productively, but it helps to some extent, to mobilize the bank deposit.
- Developed country does not feel the need of deposit mobilization for capital formation due to developed capital markets in every sectors but in an under developed country and developing country deposit mobilization plays a great role for the economic development . So far the developments of these sectors concerned, there is needs of more capital. Again instead of the development of a particular sector, the development of every sector should go side by side. Low national income, low per capita income, lack of technical know how, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical condition etc. are the main problems of economic development of an under developed country like Nepal. So the development process of these sectors on one side and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of an under developed country. We can take this in our country's present context (NRB Bankers Prakashan, 2004: 22).

#### **2.1.10 Advantages of Deposit Mobilization**

**To Support Fiscal and Monetary Policy:** - Fiscal policy of the government and monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. Deposit mobilization helps to channelize idle money in productive sectors. Again, it helps in money supply which saves the country from deflation and helps central bank's objective of monetary policy.

**To promote cottage industries:** - Deposit mobilization is needed to facilitate cottage industries located in rural and urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it helps not only to promote cottage industries in the area, but also support in the development of the locality as a whole by increasing employment and income of the local people.

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

**Circulation of Idle Money:** - Deposit mobilization helps to circulate idle money. The meaning of deposit mobilization is to convert idle saving into active saving. Deposit mobilization helps the depositors habit of saving on one side and it also help to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors. Again, investment in productive sector helps directly in country's economic development and also increases investors' income.

**Development of banking habit:** - One important side of economic development of a country is to increase banking habit of the people. Deposit mobilization helps in this aspect. If there is proper deposit mobilization, people believe on the bank and banking habit of the people develops.

**To check-up miss utilization of money:** - Mostly our customs and habits are supported by social and religious beliefs. There is also tendency of copying others and show the superiority in the society by buying unnecessary and luxury items. In such society, deposit mobilization proves itself as a tool to check-up miss utilization of money.

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

**Co-ordination between different sectors:-** Deposit mobilization helps to collect capital from surplus and capital hoarding sectors. The fund can be invested for the needy sectors i.e. priority sectors. Thus, it helps to fulfill the gap between these two benefited by earning interest in the deposit and the needy sectors by receiving loans and advances. Thus, deposit mobilization helps to keep good co-ordination between different sectors.

**Others:-** Deposit mobilization supports small savers by giving interests, helps to the development of rural economy, protects villagers from being exploited by indigenous bankers, increases investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc. (NRB Bankers prakashan,. 2002: 14)

### **2.1.11 Meaning of Interest**

Interest rate is one of the most important variables in economics and financial system of the country. In common sense interest is a payment made by borrower to the lender for the money borrowed and is expressed as a rate percentage per year. The interest rate is the price of money; the price of renting the use of the resources that money commends for a specified by the free interplay of supply and demand in a market economy. The price of the money, the interest rate, plays a vital role in the allocation of resources and in the decision making of consumers and business. Various interest rate theories have been propounded by various economists, which describe how interest rate is determined in various situations. There are numerous interest rates in financial market. Such type of differences exists due to the risk premium associated with the issuer. Even securities issued by the same borrowers often carry a variety of interest rates. In this section, the focuses upon those basic forces that influence the level of different interest rates. (Gittman and Jochnk, L.J, 1994: 214).

#### **1. Classical Theories of Interest Rates**

The classical theory argues that the rate of interest is determined by two forces:

- The supply of savings, derived mainly from households and
- The demand for investments capital coming mainly from the business sector.

**Saving by Households:-** Generally most of the savings in modern industrialized economies are carried out by individual and families. For these households, saving is simply abstinence from consumption spending. Current savings, therefore, are equal to the difference between current income and current consumption expenditures. In making the decision on the timing and amount of saving to be done, households typically consider several factors: the size of current and long-term income, the desired savings

target, and the desired proportion of income to be set aside in the form of savings. Interest rates affect an individual's choice between saving and current consumption. The classical theory of interest assumes that individual have a definite time preference for current over future consumption. It considers the payment of interest as a reward for waiting the postponement of current consumption in favor of greater future consumption. The higher interest rate increases the attractiveness of saving (and future consumption) for some quantity of current consumption.

**Saving by Business Firms:-** Most business hold savings balances in the form of retained earnings (as reflected in their equity or net worth accounts). The volume of business saving depends on two key factors: the level of business profits and the dividend policies of corporations. These two factors are summarized in the retention ratio, the ratio of retained earnings to net income after taxes. This ratio indicates the proportion of business profits retained in the business for investment purposes rather than paid out as dividends to the owners. The critical element in determining the amount of business savings is then the level of business profits. If profits are expected to rise, business will be able to draw more heavily on earnings retained in the firm and less heavily on the money and capital markets for funds. The result is a reduction in the demand for credit and a tendency toward lower interest rates. Higher interest rates in the money and capital markets typically encourage firms to use internally generated funds more heavily in financing projects. Conversely, lower interest rates encourage greater use of external funds by raising it from the money and capital markets.

**Saving by Government:-** Governments also save though less frequently than households and businesses. In fact, most government saving (i.e. a budget surplus) appears to be unintended saving that arises when government receipts unexpectedly exceed the actual amount of expenditures. Income flows in the economy (out of which government tax revenues arise) and the pacing of government spending programs are the dominant factors affecting government savings.

The savings made by business, government and households are important determinants of interest rate but they are only one side. The other side is investment spending, made by business firms, government and in some cases households. Business requires huge amounts of funds each year to purchase equipment, machinery and inventories and to

support the construction of new buildings and other physical facilities. The majority of business expenditures for these purposes consist of what economists call replacement investment. But according to the classical economist, interest rate and invest able fund have inverse relationship. At low rates of interest, more investment projects become economically viable.

## **2. The Loanable Fund Theory**

In this theory, the main theme is the supply and demand for loanable funds (i.e. lending & borrowing) determines the interest rate. It is a monetary theory of interest since it focuses on the financial factors that influence interest rates (i.e. borrowing and lending). In addition, the loanable fund theory is a short-run, partial equilibrium explanation in which some factors produce a change in the interest rate, but there is no analysis of the long-run impact of this change in the interest rate and on the level of employment, income, and production of the resulting impact of changes in employment, income and production on the interest rate. The major sources of supply of loanable fund are from two sources:

- The amount of saving by households, business, governments and
- The amount of new money created by the commercial banking system.

**Saving:-** It refers to the postponement of current consumption. The decision to save is the decision to forgo current consumption in order to have a larger quantity of consumption in the future (Crosse, H.D. (963: 186). Individual or household save for a variety of reasons but there is little evidence to suggest that the quantity of loanable funds supplied through saving is clearly influenced by the level of the interest rate. Business saving refers to the net income after taxes of the firm, less any cash dividends i.e. retained earnings. There is little reason to believe that the volume of saving at business firm is strongly influenced by the level of interest rates. For governments, the volume of saving is defined as the difference between revenues and expenditures such that saving exists when revenues exceed expenditures (a budget surplus).

**New Money:-** Although the volume of saving is the principal source of loanable funds in financial markets, the supply of the loanable funds may be increased through the creation

of new money beyond the amount made possible by current saving. The amount of new money created is determined jointly by the actions of the commercial banking system and the central bank. Commercial banks use any excess reserves to make loans and purchase securities and create money (demand deposits) through the credit creation process. However, the ability of commercial bank to create money is limited by the central bank through the use of its monetary policy tools like open-market operations, reserve requirement changes, and discount rate changes.

### **3. The Liquidity Preference Theory of Interest Rate**

The loanable funds approach to interest rate determination focuses on supply and demand for loanable fund. An alternative approach the liquidity preference view focuses on the liquidity preference instead of the supply and demand for money. It is assumed that individuals inherently prefer money among all financial assets since money can be used to make payments and is thus the most liquid assets. Wealth holders are persuaded to hold financial assets other than money only because these non-money assets offer interest returns which do not exist in the holding of idle money. Further the greater the spread between the yields on non money financial assets and money, less the demand for money holdings and greater the demand for other financial assets and vice versa.

### **4. The Rational Expectation Theory**

This theory is new to the financial market so it is in still development stage. The main theme of this theory is that “money and capital markets are highly efficient institutions in digesting new information affecting interest rates and security prices.” (Peter, R 2004: 211) This theory assumes that equilibrium interest rate depends upon the change in investor’s expectation regarding future security prices and return. Investor’s decision towards the borrowing and lending funds come from the availability of new information. When new information appears about investment, saving or the money supply, investors

begin immediately to translate that new information into decision to borrow and lend funds. So rapid is the process of the market digesting new information that security prices and interest rates presumably impound the new data from virtually the moment they appear. In the absence of new information, next period's interest rate will be equal to current periods interest rate. In other words, the knowledge of past interest rate will not be a reliable forecast of future interest rate. In a perfect efficient market it is impossible to win excess returns continuously by trading on publicly available information.

### **2.1.12 Features of Lending and Fund Mobilization Policy**

Income and profit of the financial institutions like commercial banks and financial institutions depend upon its lending procedure, lending policy and mobilizing collected fund through investing in different securities. The greater the credit created by the bank the higher will be the profitability. Some required features of sound lending policy and fund mobilization is explained as under:

**Safety and Security:-** Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

**Legality:-** Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will

bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be lost.

**Liquidity:-** Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

**Profitability:-** To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.

**Tangibility:-** A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly doesn't yield an income a part from intangible securities, which have lost their value due to price level inflation.

**Purpose of loan:-** Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. So, they should collect detailed information about the plan and scheme of the borrowing.

**Diversification:-** A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

## **2.2 Review of Journal &Articles**

**Shrestha (2004)**, Deputy Chief officer of NRB Banking Operation Department, has given a short glimpse on the, "*Portfolio Management in Commercial Banks, Theory and Practice*". Shrestha emphasis issue in the article. The portfolio management becomes very important both the individual and the institutional investors. Invest would like to select a best mix of invests assets subject to following aspects.

- Economic efficient and effective investment mix,

- Higher return which is comparable with alternative opportunities available according to the risk class investors,
- Maximum tax concession,
- Good liquidity with adequate safety of investment,
- Flexible capital investment,
- Certain capital gain.

In the view of above aspects following strategies are adopted.

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

Shrestha has presented two types of investment analysis technique; i. e. fundamental analysis and technical investment analysis to consider any securities such as equity, debenture or bond and other money and capital market instrument.

He has suggested that the bank has international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence.

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

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

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

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

**Pradhan (2005)**, has presented a short glimpse on investment in different sector, its problem and prospects through his article *“Deposit Mobilization, its problem and prospects”*. He has expressed that, “Deposit is the life blood of any financial institution,

and be it commercial bank, finance company, co-operative or non government organization.” He has added, “In consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector.

**Bajracharya (2008)**, in his article, “*Monetary policy and deposit mobilization in Nepal*” concludes that the mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and for this purpose commercial banks are the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the economy.

**Panta (2010)** in his thesis article, “*A Study of Commercial Banks Deposit and its Utilization*” has made an attempt to highlight the discrepancy between resource collection and research utilization. He concluded that commercial banks failure in resource utilization is due to their lending confined to short term only. He recommended the commercial banks to give emphasis also on long and medium term lending for better utilization of the deposit.

### **2.3 Review of Previous Thesis**

**Shrestha, (2007)** has conducted a study on “*Investment Practice of Joint Venture Banks in Nepal*”. He has selected three joint venture banks i.e. Standard Chartered Bank Limited and SBI Bank Limited for the study of lending and investment practice.

The main objectives of his study are;

- To highlight the features and problems of investment lending procedure in foreign commercial banks and their implementation in practical life
- To study priority sector investment and repayment rate of commercial banks in Nepal through intensive banking program.
- To show the repayment position of the sector of the three commercial banks.

The major findings of this study are as follows.

Commercial banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial banks have lots of deposits but very little investment opportunities. They are even discouraging people by offering very low interest rates and minimum threshold balances.

He has concluded that since the liquidity position of SCBNL and SBI have not found satisfactory. It is therefore, suggested them to improve cash and bank balance to meet current obligations. SCBNL's loan and advances to total deposit ratio is lower at all, therefore it is recommended to follow liberal lending policy for enhancement of lend mobilization. It was found that SBI had not invested its fund on share and debenture of other companies. It is suggested to enhance off balance sheet transactions, diversifying investment, open new branches, play merchant banking role and invest their risky assets and shareholders fund to gain higher profit margin. SCBNL and SBI are recommended to increase cash and bank balances to meet current obligations and loan demand.

The above finding showed that there are some conflicting statements, which are obviously not matching with his statements of the problems. This study ignored the industry average and also failed to figure out what is right industry like banking among the excess of investment and advances. Again, he thought liberal lending policies to solve the problem to increase the level of loans and advances. But somewhere in his recommendation, he has warned commercial banks to increase the level of investment to government securities or other safe instrument just to avoid risk arising from lending. From this, it can be concluded that Mr. Shrestha has made his entire conclusion absolutely and he has not made any relative analysis of the pros and cons of the entire factor, affecting the study.

**Maharjan (2008)** has carried out a research work on the topic "*Deposit Mobilization of Commercial Banks in Nepal*". The objective of the study has been to examine relationship between the amount of total deposit and amount of total credit granted by the commercial banks. The main objectives of the study are;

- To analyze the relationship between deposits and loans & advances.
- The effectiveness of deposit mobilization of commercial banks.

- To examine how far the interest rates of deposits have positive relationship with the deposit collection of commercial banks.
- To see the impact of an interest rates of loan on the credit extended by commercial banks.
- To provide suggestions and recommendations to the concerned for the further improvement.

Based on the study his major finds are;

- The cash and bank balance to total deposit ratio of HBL is 7.79 percent in an average, SBL is 7.65 percent in an average as well as NBL has 5.68 percent and SCBNL has 7.42 percent. The average ratio of HBL is higher than SBL, NBL and SCBNL. The ratios of the banks are found to be in fluctuating. The S.D is 1.58, 5.3, 2.18 and 1.73 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 20.28, 69.26, 38.37 and 23.32 respectively.
- The Loan and Advances to Total Deposit ratio of HBL is 52.77 percent in an average, SBL is 114.72 percent in an average as well as 64.07 percent in an average for NBL and 12.75 percent in an average for SCBNL. The ratios of the banks are found to be in fluctuating. The S.D is 3.77, 36.68, 5.98 and 6.1 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 7.14, 23.26, 9.33 and 16.57 respectively.
- The Total Investment to Total Deposit ratio of HBL is 37.76 percent in an average and SBL is 9.11 percent in an average as well as NBL has 37.04 percent in an average and SCBNL has 53.79 percent in an average. The ratios of the banks are found to be in fluctuating.

Based on his findings, the liquidity position of a bank may be affected by internal as well as external factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situations. The ratio of cash and bank balance to total deposit and current assets of

SBL is higher than that of other banks. It means SBL has higher cash and bank balance than other banks and it indicates SBL has higher idle cash and bank balance. It may decrease profit of bank. SBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.

Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety than other means of investment. So, SBL is strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle with this proverb "something is better than nothing"

As a private sector, commercial banks can not keep their eyes closed from the profit motive. They should be careful in increasing profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and all its customers. SBL's profitability position is worst than that of other two banks. So, SBL is strongly recommended to utilize risky assets and shareholders fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheap fund being more profitable.

**Joshi (2009)**, has conducted a study on "*Investment & Deposit of Commercial Bank of Nepal*" a comparative study of SCBNL with NABIL Bank and BOK.

Her Main Objectives

- To examine the liquidity assets management and profitability position and investment policy of SCBNL in comparison to NABIL and BOKL.

- To analyze the relationship between loan and advance and total investment with other financial variable of SCBNL and compare with NABIL and BOKL.
- To study the various risks in investment of SCBNL in comparison to NABIL and BOKL.
- Her Majors Findings
- SCBNL has higher idle cash and bank balance. It may decrease profit of bank. It is good to invest more on share & debentures as it encourage financial and economic development of the country.
- A commercial bank must mobilize its fund in different sector such as to purchase share & debentures of other financial and non financial companies out of total working fund.
- SCBNL has invested its more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture in very nominal.
- Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said “all eggs should not be kept in the same basket”.
- On the basis of above facts, it is seen that SCBNL has invested much of its fund in total outside assets but it has not achieved the desired result.
- The risk taken by SCBNL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle.

**Khatri (2011)** has carried out a research work on the topic “*Mobilization of Deposit and Investment of Nabil Bank Limited*”. The purpose of the study will be to examine the relationship between the amount of total deposit and amount of total credit granted by Nabil. The main objectives of the study are;

- To examine how far the interest rates of deposits have positive relationship with the deposit collection of Nabil Bank.
- To see the impact of interest rate of loan on the credit extended by Nabil Bank.

- To study the increasing and decreasing trend of deposit mobilization of Nabil Bank.
- To compare the performance of deposit and investment of Nabil.

The major findings of this study are;

- The analysis reveals that the banks attraction toward saving deposit seems to be satisfactory. But it is not stable increasing in percentage during the study period. It is continuous to increasing in the last of the study period.
- The changes in percentage in all deposits are in increasing trend. But last of the study period it is little fluctuate. The analysis reveals that the banks attraction towards total deposit seems to be satisfactory. Though the percentage changes are not stable, the change in ratio is in average. In case of percentage change in credit amount, the bank's attraction towards credit amount is satisfactory.
- The growth ratio of total deposit of Nabil by analysis of 15 years period is 13.48%. It means the bank is able to maintain 13.48% growth rate. This ratio measures the capacity of the bank to maintain the percentage of total deposit. Since the growth ratio of total deposit is 13.48%, the bank must improve its deposit collection in high growth ratio. Similarly the growth ratio of total credit is 17%. So the bank seems in strong condition to increase the total credit than the total deposit growth rate.
- The total deposit has found in increasing trend. The total deposit of Nabil will be Rs. 17544.74 lakhs in the 2009, if other things remains same. Similarly the credit also found in increasing trend. The amount of total credit will be Rs. 10408.03 lakhs in 2009.if other factors remains the constant.
- Bank's deposit collection is satisfactory but due to lack of investing opportunities it is unable to use its funds. Bank considers various possible factors while making lending. Such as: safety and security, profitability, feasibility of project available of resources diversification, legality etc. Lending process is lengthy because it takes longtime to get loan from the bank. Manager generally visits to the investor once a year to get information about the business.This is very helpful to the investors.

## **2.4 Research Gap**

Research gap refers to the gap between previous research and this research. Many research studies have been conducted by the different students, experts and researcher about deposit mobilization. There have been fund numerous research studies on financial companies and public enterprises regarding deposit mobilization. Some studies are related to case study of two company and some others are comparative in nature. But the case study on deposit mobilization of single financial company can be hardly fund. From the review of related studies no one study have been found as a case study on deposit mobilization of Nepal SBI Bank Ltd.

The financial and statistical tools used by most of the researchers were ratio analysis, test of hypothesis and regression analysis. This study includes different tools like ratio analysis, correlation analysis and co-efficient of variation, probable error, trend analysis as specific tools. Thus the research study made on “A case study on deposit mobilization of Nepal SBI Bank Ltd.” will be an effort to analyze on detail about deposit mobilization. present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people as well.

## **CHAPTER - THREE**

### **RESEARCH METHODOLOGY**

A systematic study needs to follow a proper methodology to achieve pre-determined objective. Research methodology may be defined as “a systematic process that is adopted by the researcher in studying problem with certain objective and view”. In other words, research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. It is really a method of critical thinking by defining and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions.

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a brief explanation of research design, nature and sources of data, method of data collection and methods of tools used for analyzing data.

#### **3.1 Research Design**

Research design is a plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variance (Wolff; 1975:51). It is the arrangement of conditions for collection and analysis of data in a manner aiming at combining relevance to the research purpose with economy in procedure. Considering this study objectives, the analysis is based on certain research design. In order to achieve the objectives, descriptive and analytical research design has been adopted. Descriptive research design describes the general pattern of investors, business environment, problem of portfolio management etc. The analytical research design carries out the analysis of information and data. Most of the data and information of the study were related with the past phenomenon. On this background it can be considered as a historical research.

- What is the study about?
- Why study is being made?
- How will the data analysed?
- What will be the sample design?

### **3.2 Population and sample**

The population refers to the industries of the same nature and its services and product in general. Thus, total of 31 commercial banks operating in Nepal constitute the population of the data and the bank under study constitutes the sample for the study. Among them only one bank i.e. Nepal SBI Bank is selected as the sample bank to carry out the study. Because this bank is leading banks in financial sector of Nepal and time & resource are constraints for the study.

### **3.3 Nature and Source of Data**

This study was conducted on the basis of secondary data. The data relating to the deposit, investment, loan advances and profit were obtained from the balance sheet and profit and loss account of the concerned banks. Formal and informal interaction with the concerned department of the banks were made to obtain additional information of the related problem. The data are collected from Library of Tribhuvan University, Nepal Sbi Bank, Central Office, Web Site of NRB Bank (<http://www.nrb.org.np>) and (<http://www.nsbi.com.np>), Different Newspapers, articles etc.

### **3.4 Method of Data Collection**

The study is conducted mainly on the basis of Secondary Data. All the data relating to deposit, interest rate and other are directly obtained from the Strategic Planning Department of Nepal SBI Bank, Central Office. Other relevant data are obtained through various sources like, library of TU, web site of NRB and NSBI and other different newspapers, articles etc. Different official records are also obtained through personal visiting.

According to the needs and objectives, some primary data also have been taken. Informal talks made to the officials of the bank were also helpful to make the data more meaningful. Similarly different data were also collected from the economic journals, periodicals, bulletins, magazine and other published reports and documents from various sources.

### **3.5 Method of Data Analysis**

The collected data will have no meaning if such data will not analyzed properly. Statistical and financial tools were used in this study based on the nature of data. The collected data from various sources leads to the logical conclusion only if the appropriate tools and technique were adopted.

#### **3.5.1 Financial Tools**

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationships between the items of the balance sheet and the profit and loss account.

Ratio analysis is a powerful tool of financial analysis. A ration is designed as the indicated quotient of two mathematical expressions and as the relationship between two or more variables. In financial analysis, ratio is used as a benchmark for evaluating the financial position and performance of a firm. The financial tools used in this study are as follows.

- a. Percentage Change:** - To find out the changing positions of different amount this ratio is used. This ratio is calculated to measure the acceleration or retardation of any variables to the company is to take the suitable direction. It is calculated in following way:

$$\text{Annual percentage change} = \frac{\text{Amount of This Year} - \text{Amount of Last Year}}{\text{Amount of Last Yeat}}$$

- b. Credit Deposit Ratio:** - To find out the effective utilization of available sources this CD ratio is used and to find out CD ratio following formula is used.

$$\text{Credit deposit ratio (CD Ratio)} = \frac{\text{Total Credit}}{\text{Total Deposit}}$$

- c. Cash and Bank Balance to Total Deposit Ratio:-** Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

$$\text{Cash and Bank Balance} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Where, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposits consist of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

- d. Growth Ratio:** - Growth Ratio is calculated to find out how would the bank is maintaining economic and financial condition. The following formula has been used to calculate growth ratio.

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

Where,

$D_n$  = Total amount in nth year.

$D_0$  = Total amount in beginning year

G = Growth rate of amount

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

To examine and analysis following growth ratio are calculated in this study.

- Growth ratio of total deposit.
- Growth ratio of total credit.

### 3.5.2 Statistical Tools

Statistical tools are used to analyze the relationship between two or more variables and to find how these variables are related. In this study, following statistical tools are used.

- a. Arithmetic Mean or Average:-** The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by;

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

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

$$\sum X = \text{Sum of values of all items, and,}$$

$$N = \text{Number of items}$$

- b. Standard Deviation:-** The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter's (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is calculated as;

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

$$\sigma = \text{Standard deviation}$$

$$\sum (X - \bar{X})^2 = \text{Sum of squares of the deviations measured from arithmetic average.}$$

$$N = \text{Number of items}$$

- c. Coefficient of Correlation:-** Correlation is a statistical tool designed to measure the degree of association between two or more variables. In other words, if the changes in one variable affect the changes in another variable, then the variables are said to be co-

related when it is used to measure the relationship between two variables, then it is called simple correlation. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always lie between +1 and -1. The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

Where,

$r$  = Correlation coefficient

$\sum x_1$  =  $\sum (X_1 - \bar{X}_1)$

$\sum x_2$  =  $\sum (X_2 - \bar{X}_2)$

Under this topic, Karl Pearson's correlation coefficient is used to measure the degree of relationship between the following variables.

1. Coefficient of correlation between Total Deposit and Total Credit.
2. Coefficient of correlation between Total Deposit and Net Profit.
3. Coefficient of correlation between Total Deposit and Loan & Advances.
4. Coefficient of correlation between Deposit and Interest Rate.

The interpretation of calculated value of correlation coefficient by following way.

- If  $r = 0$ , then there is no correlation between variables.
- If  $r > 0$ , then there is positive correlation between variables.
- If  $r < 0$ , then there is negative relation between variables.
- If  $r = +1$ , then there is perfect positive correlation.
- If  $r = -1$ , then there is perfect negative correlation.

**d. Least Square Linear Trend Analysis:-** Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms.

On the basis of tendencies in the dependent variables in the past periods, the future trend is predicted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variable are repeated in the future or the past events affect the future events significantly. The future trend is forecasted by using the following formula.

$$Y = a + bx$$

where,

Y = the dependent variable

a = the origin i. e. arithmetic mean

b = the slope coefficient i. e. rate of change

X = the independent variable

## **CHAPTER - FOUR**

### **PRESENTATION & ANALYSIS OF DATA**

This section of the research includes the collected data of the deposit and interest rate and rational analysis and interpretation of these data helps us in reaching a sound conclusion. In this chapter, the analysis parts have been presented in detail. Different financial and statistical analysis which are related to deposit mobilization are studied to evaluate and to analyze the performance of SBI. A heading wise presentation of the data and analyzing and interpreting those with the help of the charts, percentage changes etc. have been done accordingly. Different financial and statistical analysis related to deposit mobilization is carried out and their results are presented in this chapter.

#### **4.1 Analysis of Deposit**

##### **4.1.1 Deposit Position of SBI Bank**

General public deposits money in bank for different periods of time. The interest differs according to the time duration. The more the time of deposition, the more interest they get. For example, deposit made on current account bears no rate of interest whereas deposit made on saving and fixed accounts get higher interest rates. Deposit is the amount which is kept by savers in commercial banks and other financial intuitions for safe keeping with no obligation, to earn interest from it.

Deposits are the main sources of resources to meet growing demands of financial existence. The existence of commercial banks basically depends upon the mobilization of deposits. It is important that commercial bank's deposit policy is the essential policy for its existence. The growth of bank depends primarily upon the growth of its deposit. The commercial banks may function well when they have enough deposit. Higher the volume of deposit, higher will be the volume of lending and investment which again creates higher volume of profit.

There is a great need of such deposit in developing countries. Banks being the intermediate accepts this sort of money and helps to channelize this in productive sector.

So the importance of banks and financial intermediaries is higher too and so SBI also tries to mobilize as much as possible deposit to earn more profit.

SBI provides banking services to the general public and makes more contribution in the economic development of the country. The bank's major activities include collection of deposit. In below summaries of the different type of deposit:

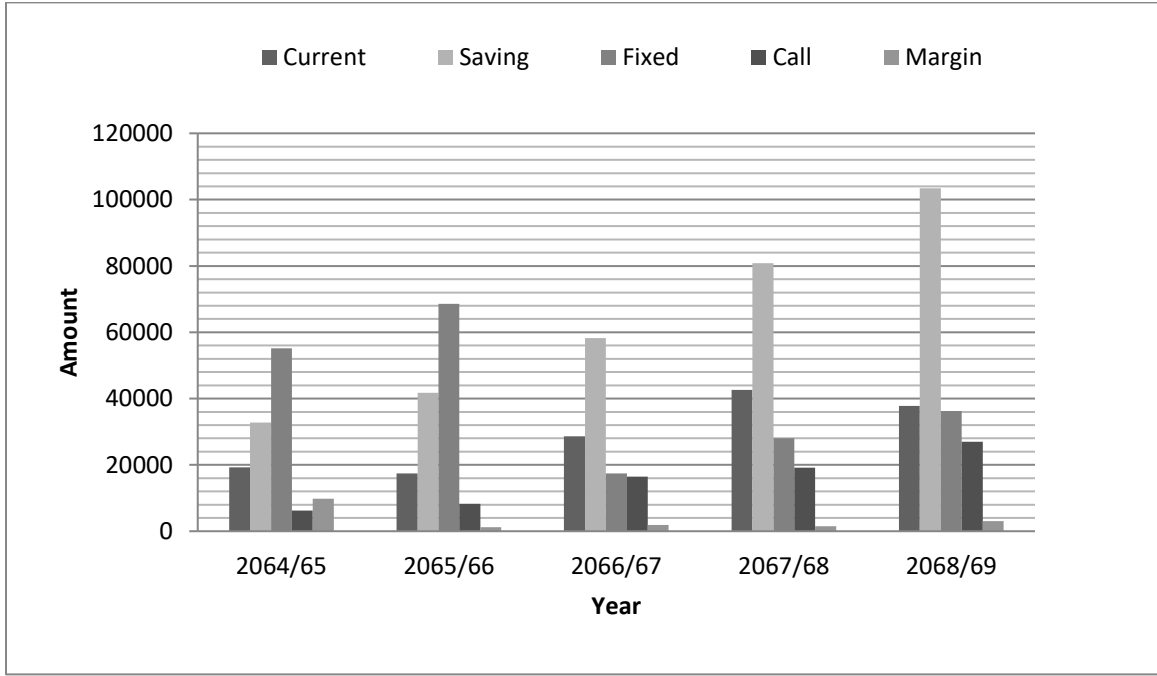
**Table: 4.1**  
**Deposit Position of SBI** **00000**

<b>Year</b>	<b>Current</b>	<b>Saving</b>	<b>Fixed</b>	<b>Call</b>	<b>Margin</b>	<b>Total</b>	<b>% Change</b>
2064/65	19304	32747	55175	6247	9798	123271	–
2065/66	17381	41712	68549	8288	1224	137154	11
2066/67	28647	58223	17438	16453	1865	122626	11
2067/68	42594	80792	28013	19170	1462	172031	40
2068/69	37778	103445	36208	27009	3051	207491	88
<b>Total</b>	<b>145704</b>	<b>316919</b>	<b>205383</b>	<b>77167</b>	<b>17400</b>	<b>762573</b>	

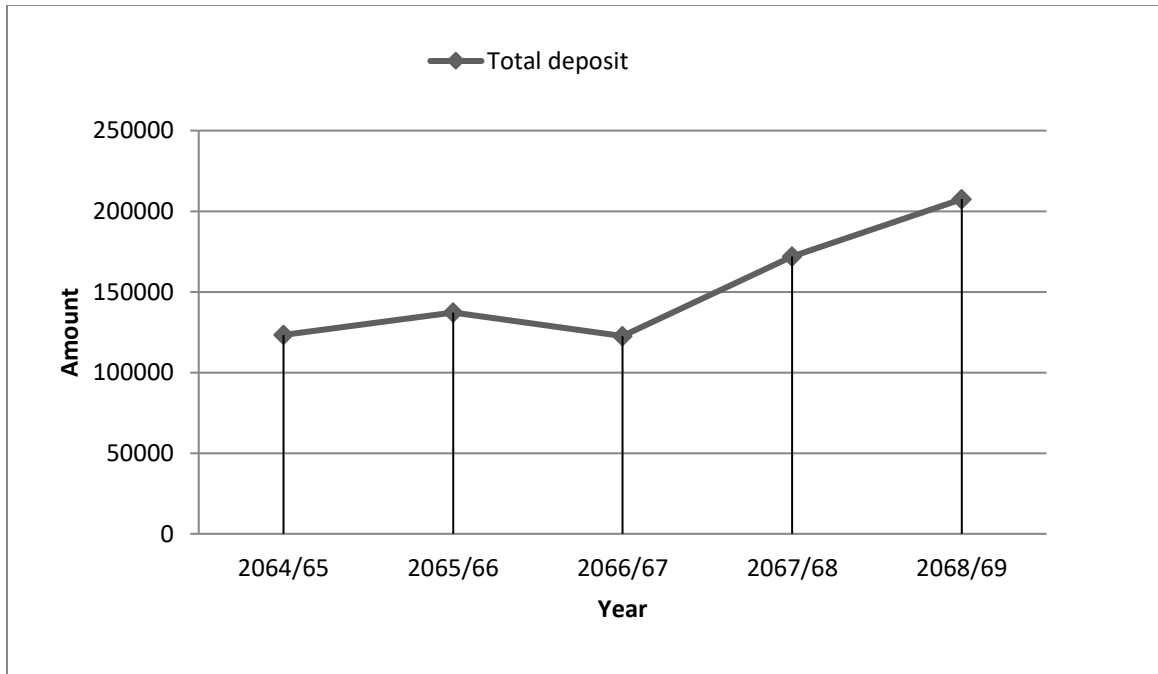
Source: annual reports of SBI Bank

Above Table and Figure 4.1 shows the deposit position of SBI. The total deposit of SBI in 2064/065 is Rs. 123271 million. During the next five year the total deposit of SBI is in increasing trend. In the fiscal year 2065/66 the total deposit of SBI is Rs. 137154 million. In 2068/69 total deposit is increase in high range among the study period. The current deposit, saving deposit, fixed deposit, margin and call deposit are in fluctuating trend over the study period but the call deposit is in increasing trend over the study period. From the above table figure it shows that the total deposit is increase trend.

**Figure: 4.1**  
**Deposit Position of SBI**



**Figure: 4.2**  
**Trend of Total Deposit of SBI**



In the above figure 4.2 the total deposit of SBI is in increasing trend in FY 2064/065 the total deposit is Rs.123721 million and increase trend of deposit is same 11% in two year. And in FY 2067/068 it is increasing by 40% and in the fiscal year 2068/069, it is increase in 88 % of last year total deposit it shows that the trend of increasing of total deposit are high degree.

#### 4.1.2 Interest Bearing and Non Interest Bearing Deposit

The deposit in which bank pay the interest like saving deposit, fixed deposit, call deposit are interest bearing deposit and the bank do not pay the interest for deposit like current deposit, margin deposit; this type of deposit are non interest bearing deposit. The position of interest bearing and non interest bearing deposit of SBI is shown in the following table and figure.

**Table: 4.2**

#### **Position of Interest Bearing and Non Interest Bearing Deposit of SBI**

<b>Year</b>	<b>Interest Bearing Deposit</b>	<b>% Changes</b>	<b>Non Interest Bearing Deposit</b>	<b>% Changes</b>
2064/65	9416	-	20284	-

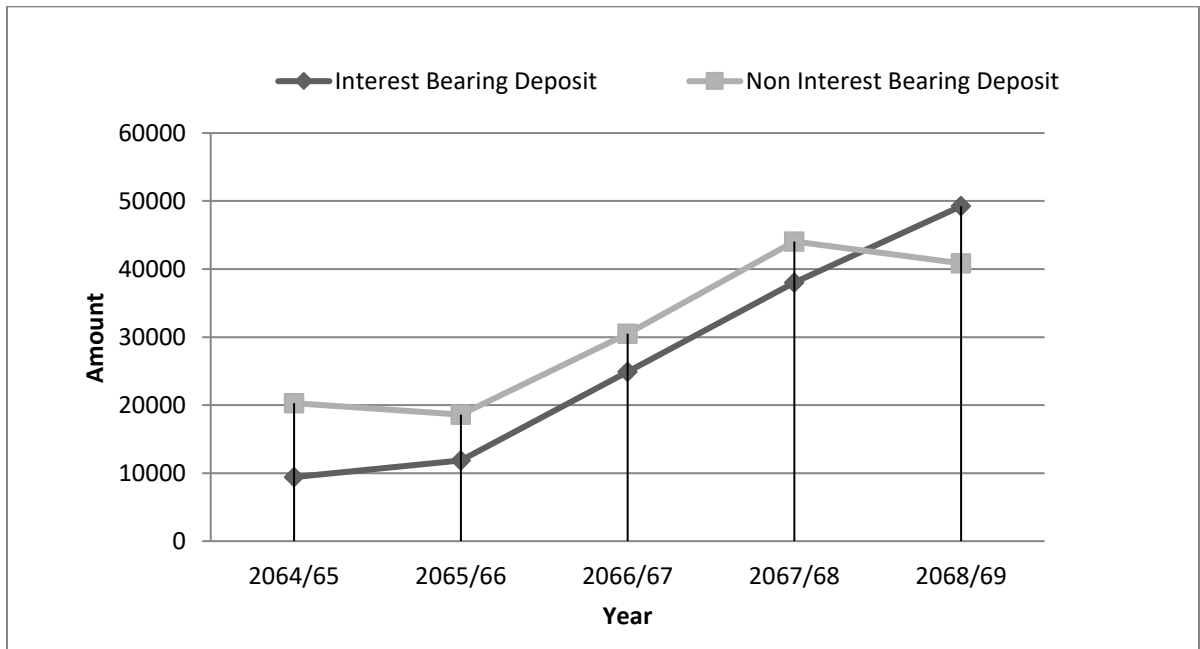
2065/66	11854	19.26	18605	8.0
2066/67	24905	110.0	30513	62.0
2067/68	38009	53.0	44055	44.0
2068/69	49254	30.0	40830	-7.0
Total	133438		154287	

Source: annual report of SBI Bank

The above table shows that the interest bearing deposit of SBI is in increasing trend over the study period. In FY 066/67 the interest bearing deposit decrease by 110% than previous year. It is high range of increase of interest bearing deposit. And the non interest bearing deposit of SBI is increase by 8% in the FY 065/066 it is low rate of increasing. But in FY 2066/067 the non interest bearing deposit is increase high range and it reaches 62% of the deposit. and it is decrease by -7.0% in the year 2068/069.

**Figure: 4.3**

**Trend of Interest Bearing and Non Interest Bearing Deposit of SBI**



## 4.2 Analysis of Credit Position

### 4.2.1 Credit position of SBI

The total credit is the loan and advance and investment. Loan is the sum of the money that will be repay by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective is to increase future wealth. The general public gets attracted to take loan and advances from the bank if the interest rate is lower. The bank provides loan to the general public for different purposes like industry, trade, commerce etc.

**Table: 4.3**  
**Credit Position of SBI**

<b>Year</b>	<b>Loan &amp; Advance (a)</b>	<b>Investment (b)</b>	<b>Total Credit (a+b)</b>	<b>% Changes</b>
2064/65	12113	26593	38706	-
2065/66	15131	30889	46020	14.82
2066/67	17481	13286	30767	22.79
2067/68	21366	16306	37672	5.57
2068/69	26142	18911	45053	1.44
Total	92233	105985	198218	

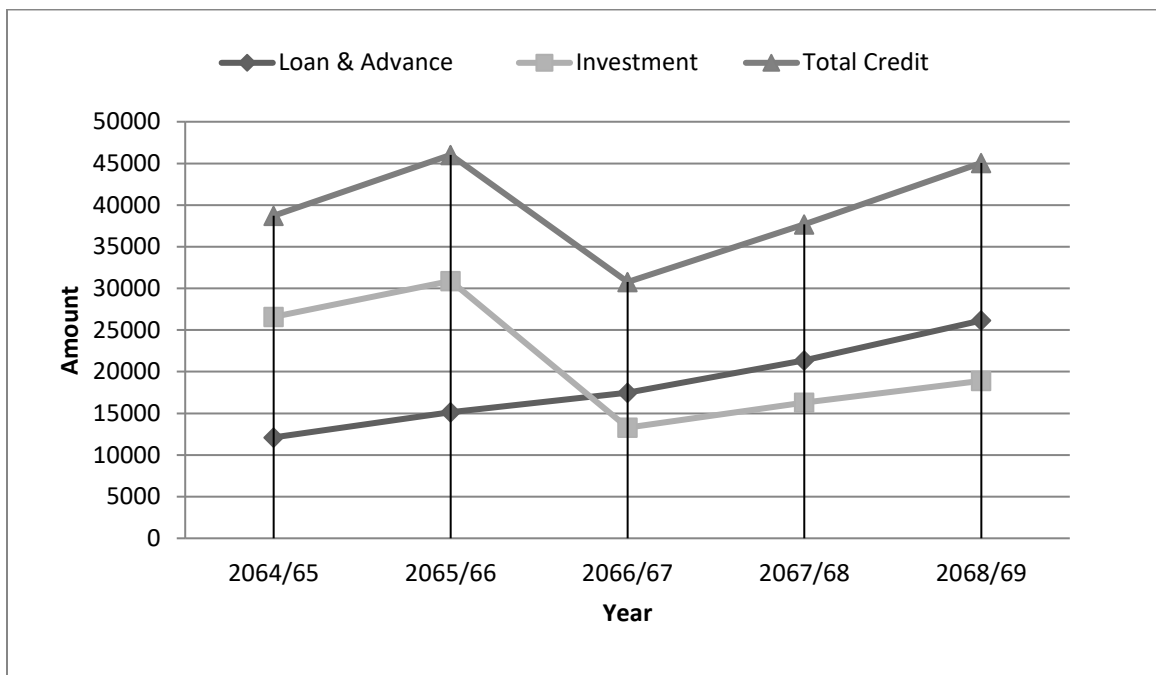
Source: annual report of SBI Bank

The above table shows the overall credit position of SBI. The components of total credit are loan and advance and investment, loan and advance is in increasing trend in hole five year. In the year 2064/065 the loan and advance is 12113 million then it is decreasing in all year then it is reached in 26142 in last 2068/069. The investment is increasing in first

two year i.e. 2064/065 and 2065/066 then and in 2066/067, 2067/068 and 2068/069 it is decrease trend. And the overall position of total credit is increasing trend over the study period. In the FY 2063/064 the amount of total investment is Rs. 105985 million. Total credit is the sum of both two loan and advance and investment. then the following two year total credit increase but in Fy 2066/067 it is decrease in Rs 30767. From than the amount of total credit is slightly increase trend. From the above figure we conclude that the loan and advance, investment and the total of credit all are fluctuating trend.

**Figure: 4.4**

**Trend Loan & Advance, Investment & Total Credit Position of SBI**



#### 4.2.2 Credit Deposit Ratio

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

$$\text{Credit deposit ratio (CD Ratio)} = \frac{\text{Total Credit}}{\text{Total Deposit}}$$

**Table: 4.4**  
**Computation of CD Ratio**

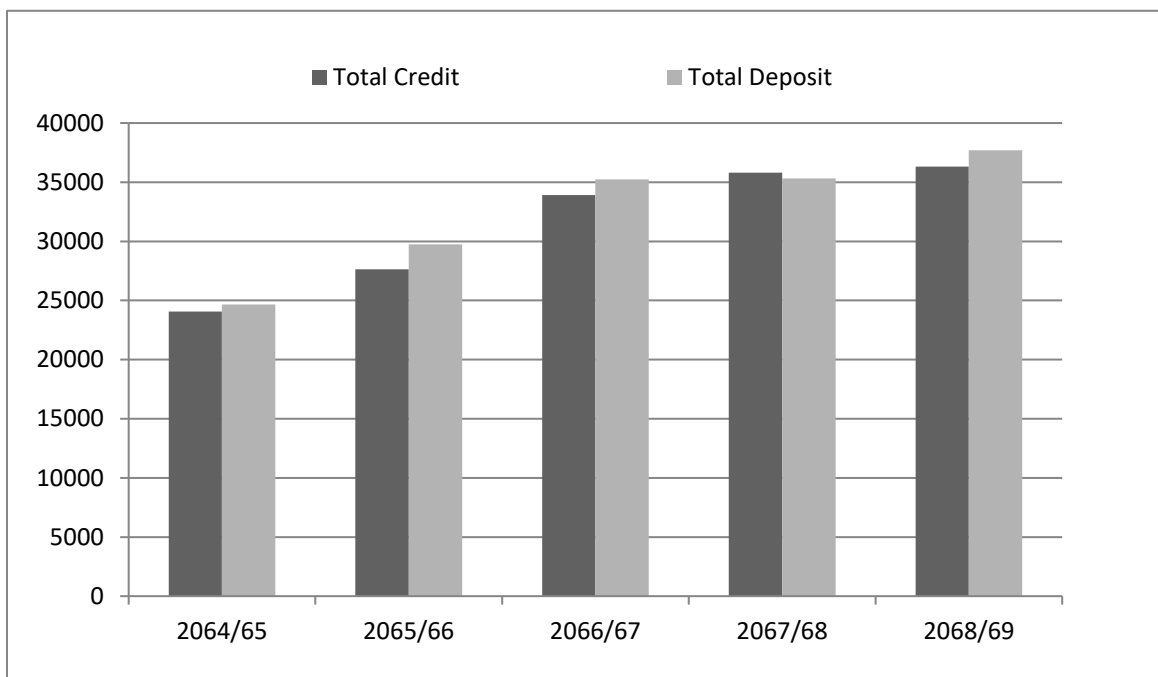
<b>Year</b>	<b>Total Credit (C)</b>	<b>Total Deposit (D)</b>	<b>CD Ratio (C/D)</b>
2064/65	38706	123271	31.40
2065/66	46020	137154	33.55
2066/67	30767	122626	25.09
2067/68	37672	172031	21.90
2068/69	45053	207491	21.71

Source: annual report of SBI Bank

From above table, it can be said that there is a greater relationship between deposits and credit. Increase in deposits leads to increase in the loan and advance, but immense increase in the deposits leads to a little bit increase in loan and advance. The above analysis shows that more than 31.40% of the deposited amount has been succeeded to mobilize the resources. Its not satisfactory of the investment position of the bank. highest ratio is 33.55 and lowest ratio is 21.70. The higher amount of deposit of this bank than

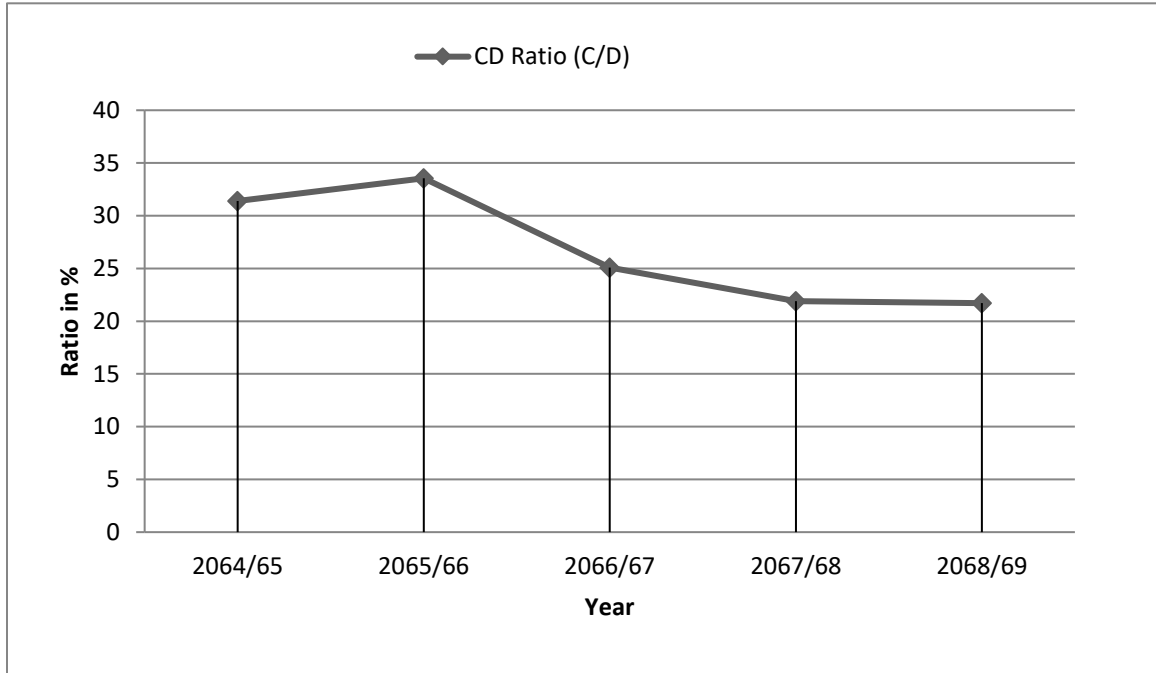
credit is due to the constriction of this bank in deposit collection. The bank medium successes to attract people to deposit their savings. Medium the CD ratio indicates the not more effective working policy of the bank. So that, medium level of utilization of the resources in the bank means there is many problem and issue of the bank.

**Figure: 4.5**  
**Deposit and Credit position**



**Figure: 4.6**

### Trend of deposit and credit



### 4.3 Analysis of Saving deposit, Fixed Deposit and Interest rate

Interest rates are most important in the every deposited amount, So that it is very much important for the every depositor. The saving deposit interest rate related to the amount of saving deposit. The saving deposit is a precautionary deposit.

Fixed deposit is the most important deposit for bank because its amount should be invests in different sector by the bank. The fixed deposit interest rate is related to the amount of fixed deposits. At the high fixed deposit rate, many people want to deposit more money in the form of fixed deposits.

**Table: 4.5**

**Interest rate and Deposit**

Year	Saving Deposit	Interest Rate	Fixed Deposit	Interest Rate
2064/65	32747	2	55175	4.75
2065/66	41712	3	68549	5.5
2066/67	58223	2	17438	6
2067/68	80792	2	28013	7.75

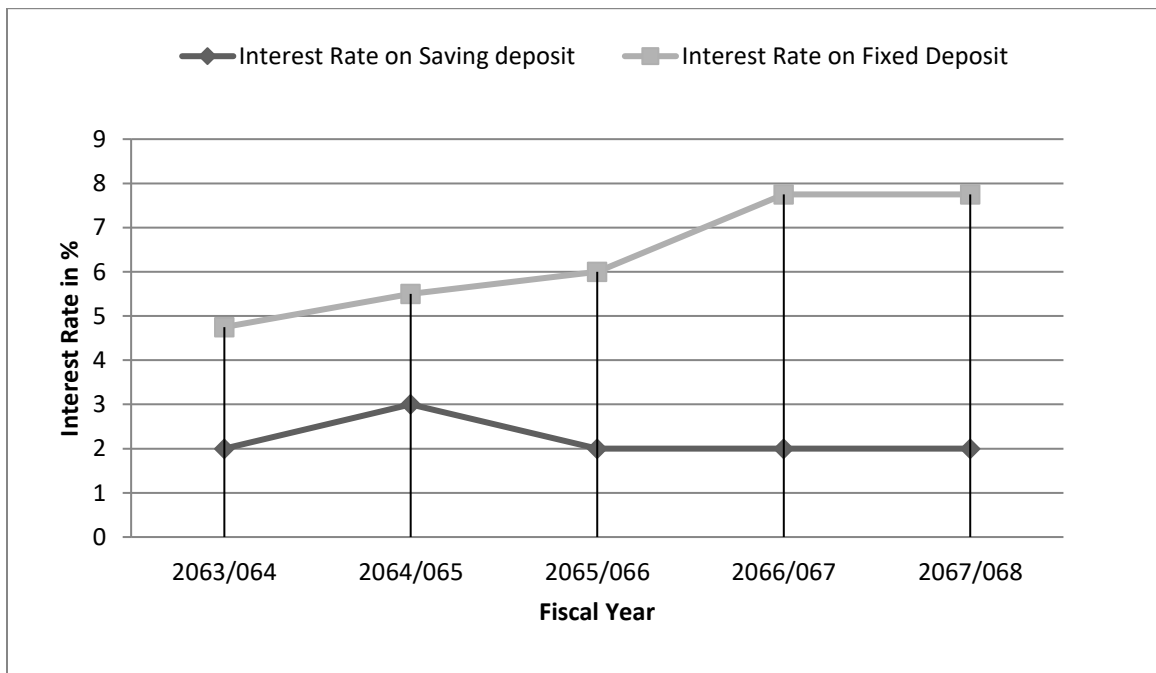
2068/69	103445	2	36208	7.75
<b>Mean(<math>\bar{X}</math>)</b>		2.2		6.35
<b>S.D (<math>\sigma</math>)</b>		0.45		1.35

Source: annual report of SBI Bank

Above table shows the deposit and interest rate of SBI, interest rate on saving deposit is in fluctuating trend over the study period and the interest rate in fixed deposit is in increasing trend. The mean value of interest on saving deposit is 2.2 and standard deviation 0.45 and interest on fixed deposit is 6.35 and standard deviation is 1.35 over the five year study period. It means the variability on interest on fixed deposit is higher than saving deposit.

**Figure: 4.7**

**Trend of Interest rate**



#### 4.4 Investment Pattern of SBI

Investment usually means the sacrifice of the current money for future money. The sacrifice takes place in the present and the reward comes later, if at all, and the magnitude is generally uncertain. However, Shrestha (2003) describes investment as utilization of saving for something that is expected to produce profit or benefits. Investment is employment of funds to achieve added income or growth in value. It involves the commitment of resources put off from current consumption with hope of capitalizing some benefits in future. It includes both real asset and financial asset .Real asset investment denotes the tangible assets like building, land, machinery, factory and the like. On the other hand, financial asset investment indicates papers representing an indirect claim to real asset held by someone else. .Nevertheless, real asset is less liquid than financial asset.

“Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generated positive returns.” (Gitman & Joehnk;1998:263)

“Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involved in the future flow of the funds.”(Frank & Reilly; 1995:267)

The above definitions infer that an investment is the allocation and mobilization of funds for a certain time period to acquire some extra benefit or extra attachment with mobilized fund.

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

**Table: 4.6**  
**Deposit and investment pattern.**

<b>Year</b>	<b>Investment</b>	<b>Total Deposit</b>
2064/65	26593	123271
2065/66	30889	137154

2066/67	13286	122626
2067/68	16306	172031
2068/69	18911	207491
Total	105985	762573

Source: annual report of SBI Bank

From the above table 4.6 shows the investment and total deposit of SBI bank. In the FY 2064/065 total deposit is 123271 million and the investment amount is 26593 million it shows that the ratio of total deposit and investment is low. It is remaining same in the other Year It shows that the ratio of deposit is low rate in the collection of different type of deposit. From the above five year data the total deposit is 762573 million and the total investment of the these five year is Rs. 205985 million.

**Table: 4.7**

**Investment Pattern of SBI**

Sector	2064/65	2065/66	2066/67	2067/68	2068/69
Nepal Govt. T-bills	22274	27628	29338	46821	34179
Nepal Govt. Saving Bonds	-	-	-	-	-
Nepal Govt. Other Securities	1181	2727	37273	89272	11427
Local licensed Institutions	-	-	-	-	
Foreign Banks	2819	2051	9946	1329	1987
Corporate Share	319	328	3295	396	307
Corporate Debentures & Bonds	-	-	-	-	-
<b>Total Investment</b>	<b>26593</b>	<b>30889</b>	<b>13286</b>	<b>18911</b>	<b>244634</b>
Less: Provisions	-	-	-	-	78.01
<b>Net Investments</b>	<b>26593</b>	<b>30889</b>	<b>13286</b>	<b>18911</b>	<b>24384.99</b>

Source: annual report of SBI Bank

From the above table 4.7 shows the investment pattern of SBI bank. SBI bank invest his collection of deposit in different type i.e Nepal Government treasury bills, Nepal government other securities , foreign Bank, and corporate share. The SBI invest the high amount in the Nepal govt. treasury bills in each year except the year 2066/067, it is risk free assets for investment. The investment trend in treasure bills is in fluctuating trend over the study period, the amount of investment in each year is Rs. 22274, 27628, 29338, 46821, and 34179 respectively in each year respectively.

The second highest investment sector of SBI is foreign banks, and Nepal government other securities. the amount invested by SB in foreign banks are Rs. 2819, 2051, 9946, 1329, 1987 million respectively in each year. The trend of investment in foreign bank is in Fluctuating each year.

#### **4.5 Growth Ratio Analysis of SBI**

The maintenance of economic and financial condition of a bank is shown by its growth ratio. If the calculated growth ratio of a bank is higher, it indicates the better performance and lower growth ratio indicates the worse performance. The growth ratio is calculated by using following formula:

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

Where,

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

$D_0$  = Total amount in the beginning year

$g$  = Growth rate

$n$  = Total number of year in the period of study.

Growth Ratio may be calculated for two components in the context of deposit mobilization of a bank viz. Growth Ratio of Total Deposit and Growth Ratio of Total Credit.

**Table: 4.8**  
**Growth Ratio of Total Deposit and Total Credit**

<b>Year</b>	<b>Total Deposit</b>	<b>Total Credit</b>
2064/65	123271	38706
2065/66	137154	46020
2066/67	122626	30767
2067/68	172031	37672
2068/69	207491	45053
<b>Growth Ratio</b>	<b>14%</b>	<b>4%</b>

*Source: Appendix VII*

From the above analysis, it is found that the growth ratio of total deposit of SBI during the period of study is 14%. So, it can be said that SBI deposit collection in higher growth ratio. The growth ratio of total credit is only 4% under the period of study which is better in compared to the growth ratio of total deposit i.e. 14%. It shows that the bank is utilizing the collected deposit as per the growth of total deposit. So, it can be concluded that the bank seems in better condition to increase the growth ration of total credit.

## **4.6 Correlation Analysis**

**4.6.1 Correlation Coefficient between Total Deposit & Total Credit:** - Correlation coefficient between total deposit and total credit measures the degree of relationship between total deposit and total credit. Here, the total credit is the amount of loan and advances and investment. For the analysis of coefficient correlation, deposit is an independent variable (X) while credit is dependent variable(Y).

**Table: 4.9**  
**Correlation Coefficient between Total Deposit & Total Credit**

Evaluation Criteria						
Name	R	r <sup>2</sup>	P.E (r )	6 P.E (r )	Remarks	Relationship
SBI	0.4989	0.2489	0.2265	1.36	significant	High Degree of Positive Correlation

*Source: Appendix I*

The above table describes the relationship between total deposit and total credit during the period of study. The coefficient of correlation (r) between total deposit and total credit is 0.4989. This figure shows the positive association between deposit and credit. It means deposit and credit both move towards same direction.

The coefficient of determination (r<sup>2</sup>) is 0.2489 it shows that 24.89% of the variation in the dependent variable (i.e. total credit) has been explained by the independent variable (i.e. total deposit).

The value of P.E. (r) is 0.2265 and 6.P.E (r) is 1.36. The value of correlation coefficient (r) is greater than six times of probable error (6.P.E (r)). Therefore true value of 'r' is significant. It reveals that there is significant relationship between the deposit collection and credit extension.

There is positive relationship between total deposit and total credit. It shows that by increasing the deposit, the amount of credit can be increased. Therefore both the deposit and credit are very much interrelated. Thus it can be concluded that if the deposit is collected more, it increases the credit accordingly.

**4.6.2 Correlation Coefficient between Total Deposit & Investment:** - Correlation coefficient between total deposit and Investment measures the degree of relationship between total deposit and Investment. For the analysis of coefficient correlation, deposit is an independent variable (X) while investment is the dependent variable(Y)

**Table: 4.10**

**Correlation Coefficient between Total Deposit & Investment**

Evaluation Criteria						
Name	R	r <sup>2</sup>	P.E (r )	6 P.E (r )	Remarks	Relationship
SBI	-0.2708	0.0734	0.2795	1.68	significant	Negative Correlation

*Source: Appendix III*

The above table describes the relationship between total deposit and net profit during the period of study. The coefficient of correlation (r) between total deposit and net profit is -0.2708. This figure shows the positive association between deposit and net profit. It means deposit and net profit both move towards same direction.

The coefficient of determination (r<sup>2</sup>) is 0.0734 it shows that 7.34% of the variation in the dependent variable (i.e. total credit) has been explained by the independent variable (i.e. net profit).

The value of P.E. (r) is 0.2795 and 6.P.E (r) is 01.68. The value of correlation coefficient (r) is greater than six times of probable error (6.P.E (r)). Therefore true value of 'r' is significant. It reveals that there is significant relationship between the deposit collection and Investment.

There is positive relationship between total deposit and Investment. It shows that by increasing the deposit, the amount of net profit can be increased. Therefore both the deposit and Investment are very much interrelated. Thus it can be concluded that if the deposit is collected more, it increases the net profit accordingly.

**4.6.3 Correlation Coefficient between Fixed Deposit & Interest Rate:** - Correlation coefficient between fixed deposit & interest rate measures the degree of relationship between fixed deposit & interest rate. For the analysis of coefficient correlation, fixed deposit is an independent variable (X) while interest rate is dependent variable(Y).

**Table: 4.11**

**Correlation Coefficient between Fixed Deposit & Interest Rate**

Evaluation Criteria						
Name	R	r <sup>2</sup>	P.E (r )	6 P.E (r )	Remarks	Relationship
SBI	-0.5611	0.3149	0.046	0.279	significant	Negative Correlation

*Source: Appendix II*

The above table describes the relationship between fixed deposit and interest rate during the period of study. The coefficient of correlation (r) fixed deposit and interest rate is -0.5611. This figure shows the high degree of positive association between fixed deposit and interest rate. It means fixed deposit and interest rate both move towards same direction.

The coefficient of determination (r<sup>2</sup>) is 0.3149 it shows that 31.49% of the variation in the dependent variable (i.e. fixed deposit) has been explained by the independent variable (i.e. interest rate).

The value of P.E. (r) is 0.046 and 6.P.E (r) is 0.279. The value of correlation coefficient (r) is greater than six times of probable error (6.P.E (r)). Therefore true value of 'r' is significant. It reveals that there is significant relationship between the fixed deposit & interest rate.

There is positive relationship between fixed deposit & interest rate. It shows that by increasing interest rate, the amount of fixed deposit can be increased. Therefore both the fixed deposit and interest rate are very much interrelated.

**4.6.4 Correlation Coefficient between Total Deposit & Loan & Advance: -** Correlation coefficient between total deposit and Net Profit measures the degree of relationship between total deposit and loan and advance. For the analysis of coefficient correlation, Total deposit is an independent variable (X) while loan & advance is dependent variable(Y).

**Table: 4.12**

**Correlation Coefficient between Total Deposit & Loan & Advance**

Evaluation Criteria						
Name	R	r <sup>2</sup>	P.E (r )	6 P.E (r )	Remarks	Relationship
SBI	0.9274	0.8601	0.0422	0.2532	significant	High Degree of Positive Correlation

*Source: Appendix IV*

The above table describes the relationship between total deposit and loan & advance during the period of study. The coefficient of correlation (r) between total deposit and loan & advance is 0.9274. This figure shows the positive association between deposit and loan & advance. It means deposit and loan & advance both move towards same direction.

The coefficient of determination (r<sup>2</sup>) is 0.8601 it shows that 86.01% of the variation in the dependent variable (i.e. total credit) has been explained by the independent variable (i.e. loan & advance).

The value of P.E. (r) is 0.0422 and 6.P.E (r) is 0.2532. The value of correlation coefficient (r) is greater than six times of probable error (6.P.E (r)). Therefore true value of 'r' is significant. It reveals that there is significant relationship between the deposit collection and loan & advance.

There is positive relationship between total deposit and loan & advance. It shows that by increasing the deposit, the amount of net loan & advance can be increased. Therefore both the deposit and loan & advance are very much interrelated. Thus it can be concluded that if the deposit is collected more, it increases the loan & advance accordingly.

#### **4.7 Major Findings**

- The current deposit, saving deposit, fixed deposit, margin and call deposit are in fluctuating trend over the study period but the call deposit is in increasing trend over the study period. From the above table figure it shows that the total deposit is increase trend.

- The total deposit of SBI in 2064/065 is Rs. 123271 million. During the next five year the total deposit of SBI is in increasing trend. In the fiscal year 2065/66 the total deposit of SBI is Rs. 137154 million. In 2068/69 total deposit is increase in high range among the study period.
- In the above figure 4.2 the total deposit of SBI is in increasing trend in FY 2064/065 the total deposit is Rs.123721 million and increase trend of deposit is same 11% in two year. And in FY 2067/068 it is increasing by 40% and in the fiscal year 2068/069, it is increase in 88 % of last year total deposit it shows that the trend of increasing of total deposit are high degree.
- Interest bearing deposit of SBI is in increasing trend over the study period. In FY 066/67 the interest bearing deposit decrease by 110% than previous year. It is high range of increase of interest bearing deposit. And the non interest bearing deposit of SBI is increase by 8% in the FY 065/066 it is low rate of increasing. But in FY 2066/067 the non interest bearing deposit is increase high range and it is reaches 62% of the deposit. and it is decrease by -7.0% in the year 2068/069.
- The components of total credit are loan and advance and investment, loan and advance is in increasing trend in hole five year. In the year 2064/065 the loan and advance is 12113 million then it is decreasing in all year then it is reached in 26142 in last 2068/069.
- The investment is increasing in first two year i.e. 2064/065 and 2065/066 then and in 2066/067, 2067/068 and 2068/069 it is decrease trend. And the overall position of total credit is increasing trend over the study period. In the FY 2063/064 the amount of total investment is Rs. 105985 million.
- From above table, it can be said that there is a greater relationship between deposits and credit. Increase in deposits leads to increase in the loan and advance, but immense increase in the deposits leads to a little bit increase in loan and advance. The above analysis shows that more than 31.40% of the deposited amount has been succeeded to mobilize the resources. Its not satisfactory of the investment position of the bank. highest ratio is 33.55 and lowest ratio is 21.70. The higher amount of deposit of this bank than credit is due to the constriction of this bank in deposit collection.

- The bank medium successes to attract people to deposit their savings. Medium the CD ratio indicates the not more effective working policy of the bank. So that, medium level of utilization of the resources in the bank means there is many problem and issue of the bank.
- From the above table 4.7 shows the investment pattern of SBI bank. SBI bank invest his collection of deposit in different type i.e Nepal Government treasury bills, Nepal government other securities , foreign Bank, and corporate share. The SBI invest the high amount in the Nepal govt. treasury bills in each year except the year 2066/067, it is risk free assets for investment. The investment trend in treasure bills is in fluctuating trend over the study period.
- From the above analysis, it is found that the growth ratio of total deposit of SBI during the period of study is 14%. So, it can be said that SBI deposit collection in higher growth ratio. The growth ratio of total credit is only 4% under the period of study which is better in compared to the growth ratio of total deposit i.e. 14%. It shows that the bank is utilizing the collected deposit as per the growth of total deposit. So, it can be concluded that the bank seems in better condition to increase the growth ration of total credit.
- There is positive relationship between total deposit and total credit. It shows that by increasing the deposit, the amount of credit can be increased. Therefore both the deposit and credit are very much interrelated. Thus it can be concluded that if the deposit is collected more, it increases the credit accordingly.
- There is positive relationship between total deposit and Investment. It shows that by increasing the deposit, the amount of net profit can be increased. Therefore both the deposit and Investment are very much interrelated. Thus it can be concluded that if the deposit is collected more, it increases the net profit accordingly.
- There is positive relationship between fixed deposit & interest rate. It shows that by increasing interest rate, the amount of fixed deposit can be increased. Therefore both the fixed deposit and interest rate are very much interrelated.
- There is positive relationship between total deposit and loan & advance. It shows that by increasing the deposit, the amount of net loan & advance can be increased.

Therefore both the deposit and loan & advance are very much interrelated. Thus it can be concluded that if the deposit is collected more, it increases the loan & advance accordingly

## **CHAPTER – FIVE**

### **SUMMARY, CONCLUSION & RECOMMENDATION**

In this chapter, summary and conclusion of the research as well as recommendations are presented separately. After summarizing and concluding the research, recommendations are suggested for the effective deposit mobilization of Nepalese Commercial Banks. The researcher has tried to give suggestions and recommendations to the commercial banks based on this research.

#### **5.1 Summary**

The problem of economic development of a developing country is a problem of real growth. Only considering real factor can't solve this problem, because, nowadays financial and monitoring factors have a tremendous effect on the growth process. For the development of the country's economy, sound and co-ordinate fiscal and monetary policy plays an important role even in underdeveloped country like Nepal. For this, the role of commercial banks becomes crucial in the task of capital formation, which is, no doubt, a

key variable in the economic development of a country. Scattered resources hold no meaning unless and until they are mobilize and utilize efficiently in some productive sectors.

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

To fulfill the research objectives the study is divided into five chapters. In the first chapter, brief introduction of deposit mobilization, significance of the study, research objectives, brief introduction of the sample banks, limitation of the study and research scheme are included.

In the second chapter, theoretical review has been made. Different theories, policies, rules and regulations about deposit mobilization are reviewed. During the study different books, journals, previous studies, websites, reports are viewed and visited to different professionals to know the deposit mobilization. During the literature review, it is found that there is a few research have been made on this topic.

Research design, population and sample and analysis tools are included in the third chapter. The data are collected from secondary and primary source for the study. The secondary data are collected from annual papers of sampled banks, SEBON, and Nepal Rastra Bank. After collecting the data from different source, it is analyzed by using financial and statistical tools and techniques.

An attempt has been made to fulfill the objectives of the research work in chapter four. In this chapter all the secondary data are compiled, processed and tabulated as per the necessity and figures; diagrams are also used to present it clearly.

In the chapter five, the summary, conclusion and recommendations are included. The summary of the study, conclusion drawn from the study are presented and necessary suggestions are given to the concern authorities, sample banks as well as Nepalese commercial banks for the betterment of deposit mobilization.

This study suffers from different limitations; it considers one bank for the sample of total commercial banks in Nepal. Time and resources are the constraints of the study. Therefore, the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organizations.

## **5.2 Conclusion**

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

benefit of its own. And lastly it can be said that banks are important for the nation. It helps in the capital formation to the nations, which is the most important element for the economic growth of the country.

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

### **5.3 Recommendation**

On the basis of analysis, findings, issue and gaps of the study, following suggestions or recommendations can be advanced to overcome weakness, inefficiency and to improve present fund mobilization of SBI.

- The bank should initiate a good step for maintaining the increasing trend of deposit collection as well as mobilization of it. The bank should launch several customer oriented programs to raise the deposits in satisfied rate. For this purpose, the foremost step to be take is the bank can increase the interest rate on deposit and further it can launch several latest technologies in the banking field like Credit Cards, e-banking etc.
- The bank should increase the total deposit in further more rate than that of current to maintain its current growth rate of 14%. For this purpose, the bank should be committed towards the satisfaction of the valued customers by providing modern

banking facilities. To increase the credit distribution in satisfied rate, the bank should launch various credit programs under the priority sector credit programs.

- To overcome the problem of decreasing CD Ratio, the bank should focus on promoting short term loans and trade finance. Interest rate cuts are seen as possible solutions in light of severe competition and reduction in deposit interest rates.
- The deposit collected under fixed deposit account was decreasing in the period of study. To increase the deposit collection, the interest rates of the account should be increased with time interval. Further the interest rate on saving deposit account also should be increased to obtain even more increment in the deposit collection. The credit of the bank should have been increased with the decrease in interest rate. But it was not happening. To increase the credit, the bank should be concentrated towards the priority sectors.
- The trend of deposit and credit was found to be in increasing trend. But the rate was not satisfying. To increase the deposit and credit in even more rate, the banks should use the computerized banking system in all the branches with ABBS facility.
- The coefficient of correlation between total deposit and total credit, saving interest & saving deposit and fixed interest & fixed deposit should be positive. But the correlation coefficient between saving interest and saving deposit was found to be negative. It is due to the existing political instability in the country and poor security system. To improve this condition, the political stability and proper security system should have to be ensured which is beyond the control of SBI.

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**Appendix I**  
**Calculation for Mean value, & Correlation between Total Deposit & Total Credit of SBI**

Year	Deposit (X <sub>1</sub> )	Credit (X <sub>2</sub> )	$x_1 = X_1 - \bar{X}_1$	$x_2 = X_2 - \bar{X}_2$	$x_1 \cdot x_2$	$x_1^2$	$x_2^2$
2064/65	123271	38706	-29,243.6	-937.60	27,418,799.36	855,188,140.96	879,093.76
2065/66	137154	46020	-15,360.6	6,376.4	-97,945,329.84	235,948,032.36	40,658,476.9
2066/67	122,626	30767	-29,888.6	-8,876.6	265,309,146.7	893,328,409.96	78,794,027.5
2067/68	172,031	37,672	19,516.4	-1,971.6	-38,478,534.24	380,889,868.96	3,887,206.56
2067/068	207,491	45,053	54,976.4	5,409.4	297,389,338.1	3,022,404,556.9	29,261,608.3
N <sub>1</sub> = 5,	$\sum X_1 =$	$\sum X_2 =$			$\sum x_1 \cdot x_2 =$	$\sum x_1^2 =$	$\sum x_2^2$
N <sub>2</sub> = 5	762573	198218			453693420.2	5387759009.2	153480413.2

For Total Deposit, and Total Credit

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{762573}{5} = 152514.6$$

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{198218}{5} = 39643.6$$

Correlation between Deposit & Credit,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{453693420.2}{\sqrt{5387759009.2 \times 153480413.20}} = 0.4989$$

$$r^2 = 0.2489^2 = 24.89$$

For Probable Error,

$$\text{PE} = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.4989^2}{\sqrt{5}} = 0.2265$$

$$6\text{PE} = 6 \times 0.2265 = 1.36$$

## Appendix II

### Calculation for Mean value, & Correlation between Deposit & Investment

Year	Deposit (X <sub>1</sub> )	Investment (X <sub>2</sub> )	x <sub>1</sub> =X <sub>1</sub> - $\bar{x}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{x}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
2064/65	123271	26593	-29,243	5,396	-157,798,465	855,188,140	29,116,816
2065/66	137154	30889	-15,360	9,692	-148,874,935	235,948,032	93,934,864
2066/67	122,626	13286	-29,888	-7,911	236,448,714	893,328,409	62,583,921
2067/68	172,031	16,306	19,516	-4,891	-95,454,712	380,889,868	23,921,881
2068/69	207,491	18,911	54,976	-2,286	-125,676,050	3,022,404,556	5,225,796
N <sub>1</sub> = 5	∑ X <sub>1</sub> =	∑ X <sub>2</sub> =			∑ x <sub>1</sub> · x <sub>2</sub> =	∑ x <sub>1</sub> <sup>2</sup> =	∑ x <sub>2</sub> <sup>2</sup>

$N_2 = 5$	762573	105985			-291355449	5387759009.2	214783278
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For Total Deposit, and Investment

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{762573}{5} = 152514.6$$

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{105985}{5} = 21197.0$$

Correlation between Deposit & Net Profit,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{-291355449}{\sqrt{5387759009.2 \times 214783278}} = -0.2708$$

$$r^2 = -0.2708^2 = 0.0734$$

For Probable Error,

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} = 0.6745 \times \frac{1 - 0.2708^2}{\sqrt{5}} = 0.2795$$

$$6PE = 6 \times 0.2795 = 1.68$$

### Appendix III Calculation for Mean value, & Correlation between Fixed Deposit & Interest Rate of SBI

Year	Fixed Deposit ( $X_1$ )	Interest Rate ( $X_2$ )	$x_1 = X_1 - \bar{X}_1$	$x_2 = X_2 - \bar{X}_2$	$x_1 \cdot x_2$	$x_1^2$	$x_2^2$
2064/65	55175	4.75	14,098.4	-1.60	-22,557.4	198,764,882.5	2.56
2065/66	68549	5.5	27,472.4	-0.85	-23,351.5	754,732,761.7	0.72
2066/67	17,438.00	6	-23,638.6	-0.35	8,273.5	558,783,409.9	0.12
2067/68	28,013.00	7.75	-13,063.6	1.40	-18,289.0	170,657,644.9	1.96
2068/69	36,208.00	7.75	-4,868.6	1.40	-6,816.0	23,703,265.9	1.96
$N_1 = 5$	$\sum X_1 =$	$\sum X_2 =$			$\sum x_1 \cdot x_2 =$	$\sum x_1^2 =$	$\sum x_2^2 =$

$N_2 = 5$	<b>205383</b>	<b>31.75</b>			<b>-62740.55</b>	<b>1706641965.2</b>	<b>7.33</b>
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For Fixed Deposit, and Interest rate,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{205383}{5} = 41076.6$$

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{31.75}{5} = 6.35$$

Correlation between Deposit & Interest rate,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{-62740.55}{\sqrt{1706641965.2 \times 7.33}} = -0.5611$$

$$r^2 = -0.5611^2 = 0.3149$$

For Probable Error,

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} = 0.6745 \times \frac{1 - 0.947^2}{\sqrt{5}} = 0.046$$

$$6PE = 6 \times 0.046 = 0.279$$

### Appendix IV

#### Calculation for Mean value, & Correlation between Total Deposit & Loan & Advances of SBI

Year	Deposit ( $X_1$ )	Loan & Advance ( $X_2$ )	$x_1 = X_1 - \bar{X}_1$	$x_2 = X_2 - \bar{X}_2$	$x_1 \cdot x_2$	$x_1^2$	$x_2^2$
2064/65	123271	12113	-29,243.6	-6,333.6	185,217,264.9	855,188,140.9	40,114,488.9
2065/66	137154	15131	-15,360.6	-3,315.6	50,929,605.3	235,948,032.3	10,993,203.3
2066/67	122,626	17481	-29,888.6	-965.60	28,860,432.1	893,328,409.9	932,383.36
2067/68	172,031	21,366	19,516.40	2,919.40	56,976,178.1	380,889,868.9	8,522,896.3
2068/69	207,491	26,142	54,976.40	7,695.40	423,065,388.5	3,022,404,556.9	59,219,181.1

$N_1 = 5$	$\sum X_1 =$	$\sum X_2 =$			$\sum x_1.x_2 =$	$\sum x_1^2 =$	$\sum x_2^2$
$N_2 = 5$	762573	92233			745048869.2	5387759009.2	119782153.20

For Total Deposit, and Loan And Advanced

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{762573}{5} = 152514.6$$

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{922333}{5} = 18446$$

Correlation between Deposit & Loan & Advance,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{745048869}{\sqrt{5387759009.2 \times 119782153.2}} = 0.9274$$

$$r^2 = 0.9274^2 = 0.8601\%$$

For Probable Error,

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} = 0.6745 \times \frac{1 - 0.9274^2}{\sqrt{5}} = 0.0422$$

$$6PE = 6 \times 0.0422 = 0.2532$$

## APPENDIX V

### Growth Ratio of Total Deposit;

$$D_n = \text{Rs. } 207491 \text{ million}$$

$$D_0 = \text{Rs. } 123271 \text{ million}$$

$$n = 5 \text{ years}$$

$$g = ?$$

According to formula,

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

$$\text{Or, } 207491 = 123271 (1+g)^{5-1}$$

$$\text{Or, } (207491 / 123271) = (1+g)^4$$

$$\text{Or, } (1.68)^{1/4} = 1 + g$$

$$\text{Or, } 1.14 = 1 + g$$

$$\text{Or, } g = 0.14 = 14\%$$

**Growth Ratio of Total Credit;**

$$D_n = \text{Rs. } 45053 \text{ million}$$

$$D_0 = \text{Rs. } 38706 \text{ million}$$

$$n = 5 \text{ years}$$

$$g = ?$$

According to formula,

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

$$\text{Or, } 45053 = 38706 (1+g)^{5-1}$$

$$\text{Or, } (45053 / 38706) = (1+g)^4$$

$$\text{Or, } (1.16)^{1/4} = 1 + g$$

$$\text{Or, } 1.04 = 1 + g$$

$$\text{Or, } g = 0.04 = 4\%$$