

**DEPOSIT COLLECTION AND MOBILIZATION  
A CASE STUDY OF NEPAL SBI BANK LIMITED**

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# RECOMMENDATION

This is to certify that the thesis:

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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# VIVA-VOCE SHEET

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A CASE STUDY OF NEPAL SBI BANK LIMITED**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for degree of

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## ABBREVIATION

A.M	Arithmetic Mean
ADB	Agriculture Development Bank
ALM	Assets Liabilities Management
B.S	Bikram Sambat
C.V	Coefficient of Variation
CRR	Cash Reserve Ratio
D/C	Documentary Credit (L/C)
FCY	Foreign Currency
FI	Financial Institution
Fig	Figure
FY	Fiscal Year
L/C	Letter of Credit
NRB	Nepal Rastra Bank
NSBL/NSBI	Nepal SBI Bank Ltd.
P.E	Probable Error
S.D	Standard Deviation

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The development of any country cannot be imagined without economic activities. The development of the banking system is one of the grounds of economic development. In another word, there is no possibility of economic development of a country without the development of economic system. So, we should take a bank as a strong means for the economic development. Capital formation is one of the important factors leads to increase in the size of national output income and employment, solving the problem of inflation and balance of payment and foreign debts. Domestic capital formation helps in making a country self-sustainable. According to classical economist, one of the main factors which helped capital formation was the accumulation of capital. Profit made by the business community constituted the major part of savings the community and the saved has assumed to be invested. They thought capital formation indeed plays a deceive role in determining the level and growth of national income and economic development. Only with such rate of capital investment will the living standard begin to improve in developing country. In developing countries, the rate of saving is quite low and existing institutions are half successful in mobilizing such savings as most people have incomes so low that vertically all current income must be spent in maintain a subsistence level of consumption.

Generally Bank is an institution, the essential operation of which is to make the monetary transaction possible in a sound and effective way. Bank accepts deposits of money from those who save and lend to those who need credit for some purpose. Bank accumulates idle money from general public by offering attractive or sound interest and lends it to the fund seekers in the economy investment in fixed assets would be possible where by productivity could grow, employment could be generated and finally national economy could be enhanced. Banks are also found to be involved

in a number of agency services of remitting and collecting cash on behalf of its clients by opening bank drafts and letter of credit facility etc.

Besides, the main task of bank is to mobilize idle resources into productive sector by collecting it from scattered sources and generating profit. Banks also facilitates people to carry out their financial transaction in every sector such as organization, industries, agriculture trade and needy people as well. Bank accepts deposits in numerous forms depending upon the nature of savers and banks own product offering strategy. Some of the common deposits are saving, fixed and call deposits etc. the cost of deposits to the banks varied as central bank has freed up the commercial bank to offer the interest rate on their own.

Banking system is the integral part of investment system in productive sector. Investment is an essence of the national economy. It is concerned with the allocation of present fund for later reward, which is uncertain. When people deposit money in a saving account in bank for example; the bank must invest the money in new factories and equipments to increase their production. Government also issues bonds to obtain funds to invest in such project such as the construction of dams, roads and schools. All such investments by individuals business and government involves a presto sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living.

The commercial banks play an important role in the modern economy. Commercial banks are the heart of financial system. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services. 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. The commercial bank has been a vital ingredient for economic development. They are intermediaries, which mobilize funds through the prudential combination of

investment portfolios in advanced countries. Whereas in Nepal the role of joint venture banks are still to be realized as an essential machine of mobilizing internal saving through various banking schemes in the economy. Hence, to uplift the backward economic condition of the country, the process of capital accumulation, among other prerequisites should be expedited.

Commercial banks represent the largest group of depository institution. The banks are channels to collect scattered saving and mobilize them by investing in productive sectors. Banks today, have gained extensive importance in public. Their major function is being confined to acceptance of deposit and extending loans to productive sectors. Banks collect deposit by offering various deposit schemes with attractive interest rates. Funds collected through acceptance of deposit are being mobilized through different ways. One of the major means is lending. Lending Portfolio mainly comprise of business lending and personal lending. Business lending of a bank represents financial of trade, letter of credit, procurement guarantee, current assets like inventories and receivables. Like wise personal lending of a bank represent financing of vehicle (for personal and commercial purpose), housing loan, mortgage loan and various other personal loans. In Pokhara, trade finance has major scope since there are very few manufacturing organizations and large number of flourished retail businesses.

Nepal SBI Bank Ltd. is the first Indo Nepal Joint Venture in the financial sector. Sponsored by three Institutional promoters, namely, State Bank of India, Karmachari Sanchaya Kosh (Employee Provident Fund) and Agricultural Development Bank through memorandum of understanding signed on 17<sup>th</sup> July 1992, the bank came into operation on 8<sup>th</sup> July 1993. The reason for its selection as study unit is due to its past performance and record of accomplishment. In due course of its operation, Nepal SBI Bank Ltd. has taken a leading and sensitive role in Nepalese financial intermediation. Nepal SBI Bank Ltd. have extended their branches in different parts of the kingdom with the increase in scale of operation

## **1.2 Focus of the Study**

Major focus of the study is about analysis of deposit collection and mobilization of Nepal SBI Bank Ltd. by using descriptive and analytical research design. The reason for selection of focus of study about Nepal SBI Bank Ltd. is one of the leading Indo Nepal Joint Venture in the financial sector. This study concentrated on deposit volume, its sources, volatility trends, cost involved and sectors to deposit mobilization. Besides, trends of NRB balance to total deposits ratio, vault to total deposits ratio and liquid funds to total deposits ratio with comparing to industrial average is also analyzed in the research. Thus, whole energy and effort concentrate on analysis of Nepal SBI Bank's deposit collection and its mobilization. The study covers the period of past seven years i.e. the period of 2006/2007 to 2012/2013 mainly consists the study of deposits collection and mobilization of Nepal SBI Bank Ltd.

## **1.3 Statement of the Problem**

The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formation and proper utilization. In such, commercial banks have to shoulder more responsibilities and act as development banks due to lack of other specialized institutions. Availability of funds is major element that determines the loan portfolio balance and term structure of the liabilities. For commercial banks the funds are available through collection of idle funds from the public. Based on the deposit available effective decisions regarding investment are made. Almost every commercial bank is engaged in delivering business lending products in some way or the other to obtain the best out of the business.

Capital in fact, plays the leading role for the economic development of a country. But in Nepal, there is shortage of capital. There are various sources of accumulating capital internal and external sources. Under external sources: aid, grants and loans are the main sources. In internal sources: accumulating capital, taxes, public enterprises, public debt are the popular in our country. But due to underdevelopment, poverty, lack of banking knowledge the desired capital for the development of the country cannot be accumulated from those internal sources. So, it can be said that in Nepal's present

situation bank deposit is dependable and permanent sources of capital Under this fact, the proposed study will be reasonable expects the study on deposit collection and mobilization of Nepal SBI Bank Limited the study has try to deals with following problems.

- What is the structure of deposit of Nepal SBI Bank Ltd?
- What is the annual growth rate and trend in deposit collection of Nepal SBI Bank Ltd?
- What is the loan and advance to deposit ratio?
- What is the capital fund to total deposit ratio?
- What is the co-relation between deposit and loan and advances?

#### **1.4 Objective of the Study**

The main objective of the study is to find out the deposit collection and its mobilization of Nepal SBI Bank Ltd. and also to have a practical knowledge of what we had learnt as the theory. Beside, these following specific objectives have been considered for the study as follows:-

- To analyse the structure of deposit of Nepal SBI Bank Ltd;
- To analyse the annual growth rate and trend in deposit of Nepal SBI Bank Ltd;
- To analyse the loan and advance to deposit ratio;
- To analyse the capital fund to total deposit ratio; and
- To measure the co-relation between deposit and loan and advances.

#### **1.5 Significance of the Study**

Banks and other financial institutions play important role to increase economic standard for the development of the country. Mainly this study provides suggestions and recommendations to the concerned for the further improvement and achievement of efficiency in deposit collection and mobilization of Nepal SBI Bank Ltd. This study will help to know how well Nepal SBI Bank Ltd. utilizing its deposit. Further, it can be useful as reference by the researcher and student and it may encourage researcher to research further regarding collection of deposit and mobilization.

## **1.6 Delimitation of Study**

Every study is assumed to possess some delimitation. So to make the research meaningful it must have its delimitation outlined by the research him selves or her selves. This study has the following delimitations:

- The Study is focused only on deposit collection and mobilization of Nepal SBI Bank Ltd.
- The study is based on Nepal SBI Bank Ltd. annual reports of 7 years data up to Fiscal Year 2012/13 and also based on information provided by Nepal SBI Bank Ltd.
- The Study principally has been based on secondary data like annual report and other publication of the bank, thus the finding and conclusion drawn from the study may not be widely generalized.
- Study is carried on within framework of study of deposit aspects of Nepal SBI Bank Limited only so study may not be able to represent whole industry.

## **1.7 Organization of the Study**

The study has been organized into five chapters introduction, review of literature, research methodology, data presentation and analysis and summary, conclusions and recommendation.

Introduction chapter includes the general background, focus of the study, statement of the problem, objectives of the study, importance of the study, delimitation of the study and organization of the study. Similarly, the second chapter deals with the review of the available literature. It includes conceptual review and review of related studies. Research methodology chapter three is concerned with the methodology adopted in the research work. It consists of research design, sample and population, sources of data, methods of analysis and financial tools to measure financial performance. In the same way, presentation and analysis of data is included in chapter four. Finally, the summary of the research report, conclusions and recommendations are given in chapter five.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

In this chapter, the attempts have been made to review useful bunch of literature relevant to study area as they have provide ideas, policies and data inputs to this analysis. Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, other information managing bureaus and the concerned bank. This chapter helps to take adequate feedback to broaden the information base and inputs to my study. This also helps to avoid duplication and provide guidelines to update the study. Conceptual foundation is a most important part of every study. Without clear concept on subject matter the study may not go through right way. Conceptual frameworks given by different authors, research scholars, practitioners etc. in this chapter are reviewed from the research papers, articles, journals etc. This chapter is divided into two parts; conceptual framework and review of related studies

#### **2.1 Conceptual Review**

This sub-chapter presents the theoretical aspect of the study. It includes the concept of commercial banks,

##### **2.1.1 Concept of Commercial Bank**

Commercial banks are those financial institutions, which deals in accepting deposits from persons and institutions and giving loans against securities. They provide working capital needs or trade, industry and even to agriculture sectors. Moreover commercial banks also provide technical and administrative assistance to industries trades and business enterprises.

Under the Commercial Bank Act 1947, the commercial banks are those banks which provide short term and long term debts whenever necessary for trade and commerce. They accept deposits from the public and grant loans in different form, purchase and discount the bill for exchange, promissory notes exchange foreign currency.

Commercial banks are heart of our financial systems. They hold the deposit of millions of persons, government and business units. They make fund available through their lending and investing activities to borrow individuals, business units and government.

Commercial bank is corporative which accepts demand deposits subject to check and make short term loans to business enterprise regard less of the scope of its other services (Ward, 1975).

According to the commercial bank act 1974, commercial banks means, a bank which operates currency exchange transaction accept deposit, providing loans and perform dealing relating to commerce and other than those banks have been specified from the co-operative, agriculture, industry of likely any other specific objectives.

Summarizing the above definition, commercial banks are financial institutions that offer the widest range of financial services specially credit, saving and payment services and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank services and functions has led to bank being labeled as “Financial supermarket.”

### **2.1.2 Development of Commercial Banks in Nepal**

The evolution of banking industry had started a long time back, during ancient time. There was reference to the activities of money changers in the temple of Jerusalem in the New Testament. Bank of Venice, set up in 1157 in Venice, Italy, is regarded as the first modern bank which started to take rapid speed in forming and functioning from 17th century. Subsequently, Bank of Barcelona and Bank of Genoa were established in (1401) (1148) respectively. In the context of Nepal for the first time, the Nepal Bank was established in 1994 (1938) and the Nepal Rastra Bank was established in 2013 (Bhandari, 2003).

The Lombards migrated to England and other parts of Europe from Italy are regarded for their role in the development and expansion of the modern banking. Bank of Amsterdam set up in 1609 was very popular then the Bank of Hundustan established in 1770 is regarded as the first bank of India. These modern banks gradually replaced

goldsmiths and moneylenders. Though Bank of England was established in 1694, the growth of banks accelerated only after the introduction of Banking Act 1833 in United Kingdom as it allowed to open joint stock company banks.

In the Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhardhar, a Sudra merchant of Kantipur in 879 A.D after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. In 11<sup>th</sup> century, during Malla regime there was an evidence of professional moneylenders and bankers. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced.

The establishment of the *Tejarath Adda* during the year 1877 A.D. was fully subscribed by the government of Kathmandu valley, which played a vital role in the banking system. The establishment helped the general public to provide credit facilities at a very low rate of 5 percent. The Tejarath Adda distributed credit facilities to the public especially on the collateral of gold and silver. Several branches were opened in different part of the country. Hence the establishment of Tejarath Add could be regarded as pioneer foundation of banking in Nepal. Tejarath Adda was running smoothly for few decades.

There was no other financial institution set- up and there was no effort to expand the services. Above all of defects, this institution did not accept any deposits from the public. In the absence of saving mobilization the 'Adda' faced financial problems making it impossible to cater to the credit and service need of the general population throughout the country. After that again, for a long time, several unorganized bankers and indigenous moneylenders continued to flourish as the sole provider of the credit and services to the general public.

Reviewing these situations, the "Udhyog Parisad" (Industrial Development Board) was constituted in 1936 A.D. One year after its formulation, it formulated the "Company Act" and "Nepal Bank Act" in 1937. Rastriya Banijya Bank, the second commercial bank was established in the year 1965. RBB being the largest commercial

bank plays a major role in the economy. The financial shapes of the two old banks have a tremendous impact on the economy.

Financial liberalization took place in Nepal in the mid 1980's. Reforms were introduced with the amendment in the Commercial Bank Act, 1974. The entry barriers placed on commercial banks were removed. This change was introduced to allow both foreign banks and the private sector to operate in the banking sector. However, foreign participation in the financial sector is only allowed with the joint collaboration with the domestic promoters. The objection was to help transmit banking, managerial and technical knowledge in the economy. The immediate impact was on the number of joint venture commercial banks.

Nepal SBI Bank is the first Indo Nepal Joint Venture in the financial sector.

Sponsored by three institutional promoters, namely, State Bank of India, Karmachari Sanchaya Kosh (Employee Provident Fund) and Agricultural Development Bank through a memorandum of understanding signed on 17<sup>th</sup> July 1992, the bank came into operation on 8<sup>th</sup> July 1993 within a period of less than one year. NSBL has its corporate office at Hattisar. The bank is currently running its operation with 18 branches in various part of the kingdom.

### **2.1.3 Functions of Commercial Bank**

Commercial bank performs different functions such as core function and support function to the business. Core function includes two types of functions- fund based and non-fund based functions. Similarly, support functions are those functions, which are carried out to fulfill the core functions. American Institute of banking (1972) has fixed out four major functions of a commercial bank-receiving payments, handling payments, making loans and investment and creating money by extension of credit. Similarly, Upadhya & Tiwari (2080) have argued that there are three major functions of commercial bank. They are Primary functions (accept deposits and provide loan & advances); Agency functions (sales & purchase of securities, working as a agent & trustee of customer, transfer of funds and provide financial information) and General functions (safe custody of valuable assets, issue of credit instruments, dealing with foreign exchange and compilation trade information & statistics)

### **2.1.3.1 Primary Function**

The Primary functions of commercial banks are accepting deposits providing loans and advances and creating credits.

#### **Accepting Deposits**

This is the oldest function of a bank and the banker used to charge commission for keeping the money in its custody when banking was developing as an institution. Now a day's bank accepts three kinds of deposits from its customers. The first is the 'savings' deposits on which the bank pays interest relatively at low rate to the depositors who are usually small savers. Depositors are allowed to withdraw their money by cheque up to a limited amount during a week or a year. Businessmen keep their deposits in current accounts. They can withdraw any amount standing to pay interest on such accounts but instead levies service charges to its customers. Current accounts are known as demand deposits. A bank accepts fixed or time deposits. Savers who do not need money for a stipulated period from 6 months to longer period ranging up to 10 years or more are encouraged to keep in fixed deposits. But there is always the maximum limit of the interest rate on fixed deposit.

#### **Advance and Loans**

One of the primary functions of a commercial bank is to advance loans to its customers. A bank lends a certain percentage of the cash lying in deposits at a higher interest rate than it pays on such deposits. This is how it earns profits and carries on its business. The bank advances loans in the following ways:

#### **Cash Credit**

The bank advances loans to businessmen against certain specified securities. The amount of the loan is credited to the current account of the borrower. In case of a new customer, a loan account for the sum is opened. The borrower can withdraw money through cheques according to his requirements but pays interest on the full amount.

#### **Call Loans**

There are very short-term loans advanced to the bill brokers for not more than fifteen days. There are advanced against first class bills or securities. Such loans can be recalled at a very short notice. In normal times, they can also be renewed.

### **Overdraft**

A bank often permits a businessman to draw cheques for a sum greater than the balance lying in his current account. Bank provides the overdraft facility up to a specific amount to the specific amount to the businessman. But bank charges interest only on the overdrawn amount.

### **Discounting Bills of Exchange**

If a creditor holding a bill of exchange wants money immediately, the bank provides the money by discounting the bill of exchange. It deposits the amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of the loan, which is not more than 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtor who accepted the bill.

### **Credit Creation**

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

#### **2.1.3.2 Agency Functions**

Commercial bank performs number or agency functions. A bank acts as an agent of its customers in collecting and paying cheque, bills of exchange, drafts, dividends etc. It also buys and sells shares, securities, debentures etc. for its customers. Further, it pays subscriptions, insurance premium, rent, electricity and water bills and other similar charges on behalf of its clients. It also acts as a trustee and executor of the property and will of its customers. Moreover, the bank acts as consultants to its clients. It also remits money from one place to another by means of cheques, drafts, wire transfer etc. For some of these services, the bank charges a normal fee while it renders others free of charge.

### **2.1.3.3 General Functions**

Besides the above noted services, the commercial bank performs a number of other general functions. It acts as the custodian of the valuable of its customers by providing those lockers where they can keep their jewelry and valuable documents. It issues various forms of credit instruments, such as cheque, drafts and travelers' cheque etc, which facilitate transactions. The bank also issues letters of credit and acts as a referee to clients. It underwrites shares and debentures of companies and helps in the collection of funds from the public. Moreover, it provides statistics on money market and business trends of the economy. A commercial bank finances foreign trade of its customers by accepting foreign trade of its customers by accepting foreign bills of exchange and collecting them from foreign banks. It also transacts other foreign exchange business exchange business-buying and selling of foreign currency.

### **2.1.4 Concept of Deposit**

Deposit is the sum of money lodged with a bank, discount house or other financial institution (Shrestha & Bhandari, 2059). 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, 2003). 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.

#### **2.1.4.1 Types of Deposit**

There are different types of deposits. But for this study, major three types of deposit are taken. They are:

##### **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, 2003). 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**

According to Commercial Bank Act, 2031 (1974) 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 s/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.

### **2.1.5.1 Importance of Deposit**

Deposit arises from saving. An individual’s income equals consumption plus saving. S/he deposits the saved part of income in the bank and gets interest from it. Banks in turn lend this money and earn profit by charging high interest rates. The borrowers from banks, invests this fund in productive sectors yielding more return than the

interest on borrowed fund. This investment leads to create new employment opportunity in the economy. Ultimately due to new employment the purchasing power of the economy increases and finally GDP and growth of the economy occurs. It means that the deposit has very important role in the economy. There is a direct relationship between deposit of banks and the investment in the economy. If the volume of deposit is low, the investment in the economy also lags behind due to lack of resources. The deposit of banks is the accumulated capital which can directly be invested. There is a great need of such deposit in the developing countries. Deposit includes the idle money of the public, bank being the inter-mediator to accept this sort of money and help to canalize this in productive sector. So the importance of banks and financial intermediaries is larger in present context.

### **2.1. 6 Meaning of Deposit Mobilization**

Deposit mobilizations play a vital role for the economic development of underdeveloped and developing countries. Underdeveloped countries like Nepal face major problems for economic development like low national income, low per capita income, and lack of technical knowhow, poverty, pressure of population growth, Geographical situation etc. For the economic development of the nation these aspect are to be taken into consideration and for this capital is required. Capital formation is possible through collection of scattered unproductive and small savings from the people. Small deposits from individual customer are often the largest segment of these deposits and represent the most diversified and stable funding source. Mobilization of internal resources i.e. deposit has greater significance for external source is not dependable to meet the required capital. So deposit mobilization helps in circulation of idle money. The meaning of deposit mobilization is to convert idle saving into active saving. The scattered deposits collected are further invested in productive sectors which increase national productivity. Further from the investment there will be generation of income to the investors. Thus there is circulation of idle money which ultimately leads to the economic development of the nation. Successful mobilization of institutional savings can only be ensured by the existence of demand –driven savings products offered by appropriate institutional structures. A broader

understanding of the savings decisions of poor households has shown that appropriate supply can attract significant volumes of savings. Furthermore, a much larger number of clients can be reached through savings mobilization than through credit- granting.

Commercial banks are considered to be the best in deposit mobilization. They collect savings/deposits scattered inform of saving deposits, current deposit and fixed deposits through their out spread branches over the country. Effective deposit mobilization by commercial banks help in acquisition of surplus capital from capital hoarding sectors which further invested in deprive sectors. This helps to fulfill the gap between these two sectors and maintain proper co-ordination as the surplus sectors will earn interest income in their deposits and deprive sectors will meet their capital requirement through loan and advances.

#### **2.1.6.1 Features of Sound 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 apart 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.

### **2.1.7 Provisions Relating to Collection of Financial Resources**

The following Directives have been issued, having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, with regard to the financial resources to be collected by the institutions licensed by this Bank:-

#### **Limit for Mobilization of Financial Resources**

The "A" Class licensed institutions may mobilize financial resources without any limitation. Provided that in case of borrowing, one third of the total deposit liability in maximum may be mobilized.

#### **Limit for Institutional Deposit Collection**

The "A", "B", and "C" Class licensed institutions may collect institutional deposits from a single firm, company or any corporate bodies not exceeding twenty percent of its total deposit.

#### **Preparation and Application of Rules and Procedures for Deposit Collection and Payment**

- The licensed institutions shall prepare and apply rules and procedures covering the types, period, and so on of the deposits that the institution is to accept and implement. Such Rules and procedures shall be submitted to Banks and Financial Institution Regulation Department and concerned Supervision Department of this Bank.
- The licensed institutions shall submit the details of dormant deposit accounts which is not in operation for the last ten years and not claimed, to this Bank within one month from the close of each of the fiscal years.
- The licensed institutions shall submit the details of unpaid dividend not collected by the shareholder or his/her heir for a period of five years from

date of declaration to this Bank within one month from the closure of the fiscal year.

- The licensed institutions shall publish, at least once, the particulars of inoperative deposit accounts or unclaimed deposits or unpaid dividend mentioned under sub-clauses (1) or (2) above in the national level newspapers within one month of the above-mentioned period. If the amount is not claimed even after such publication, the amount has to be deposited into the account as directed by this Bank.
- The licensed institution may open saving account only in cases of natural person, or organizations/ associations (including Postal Saving Banks) which have been established with not profit making objective. In cases of saving accounts opened by other organizations /institutions, except natural persons and not profit-making organizations, the accounts have to be closed without delay. Moreover, according to the acceptable banking norms, the concerned institution shall have to distinguish the accounts that have to be issued cheque book and that have not to be issued cheque book and cheque books have to be issued accordingly.

Provided that the said provisions shall not prohibit the non-natural persons such as organizations, associations, companies to open accounts earning interests other than saving accounts.

#### **2.1.8 NRB Directives Related to Compulsory Reserve/Statutory Liquidity**

The following Directives have been issued with regard to compulsory reserve and liquid assets to be maintained by a licensed institution based on its deposit and borrowing liabilities having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

## **I. Provisions Relating to Compulsory Reserve**

### **Deposits of General Public**

It shall be mandatory for class "A" institutions licensed by this bank and for the deposits of general public shall have to maintain mandatory balance at 2 percent of their total deposit liabilities.

However, the amount deposited in a class "A" licensed institution with the condition of earning interest shall not be counted as compulsory reserve. The information of such account shall be given to this Bank's Bank and Financial Institution's Regulation Department and concerned Supervision Department.

In case the balance to be maintained as above Sub-clause (1) falls short, the following fine shall be imposed:-

- For the first time of shortfall in maintaining the compulsory reserve, at the rate of the percentage of the existing bank rate on such shortfall amount;
- For the second time of shortfall in maintaining the compulsory reserve, at the rate of double of the percentage of the existing bank rate on such shortfall amount;
- For the third time and successive times of shortfalls thereafter in maintaining the compulsory reserve, at the rate of triple of the percentage of the existing bank rate on such shortfall amount.
- For the purpose of calculation of "times" under sub-clauses (a), (b), and (c) above, separate times shall be calculated on every fiscal year basis. Moreover, in case any licensed institution fails to maintain compulsory reserve for a consecutive period of three weeks, it shall be fined at the rate of first time for the first week, of the second time for the second week and of the third time for the third week.
- The fine at the existing bank rate on shortfall amount shall be on weekly basis. Such shortfall amount shall be multiplied by the percentage of bank rate and be divided by 52.

- For the purpose of calculation of compulsory reserve to be maintained, the following procedures shall be followed: -
  - ✓ The compulsory reserve shall be examined on weekly basis (from every Sunday to Saturday).
  - ✓ The compulsory reserve shall be examined against the average weekly balance of deposit liabilities of immediately preceding two weeks. In the case of full holidays in any week, the average deposit of immediately preceding week shall be considered.
  - ✓ For the purpose of calculation compulsory reserve, the weekly average of total deposit liabilities and balance held with this Bank shall be determined by aggregating the total amount of daily balances from Sunday to Saturday and dividing the same by the figure seven. In doing so, if any holiday falls in the week, the balance of the preceding day shall be considered as the balance for the day.
  - ✓ d) For this purpose, the particulars relating to each Sunday to Saturday (in the case of holiday, the previous day's balance has to be mentioned) shall be compulsorily submitted to the concerned Supervision Department of this Bank in the prescribed format referred to in Directives Form No. 13.1, within seven days from the date of the end of the week.
- For this purpose, all offices of a licensed institution shall be constituted as one unit.
- Any amount of local currency lying in transit for fund transfer and meant to be credited in the account with this Bank shall be included in the balance held with this Bank.

### **2.1.9 Policy Relating to Investments**

The licensed institutions shall have to segregate their investment portfolio in the following categories viz. the investment as held for trade, investment available for sale and investment held for maturity. Accordingly, investment shall have to be shown in separate headings.

- Investment held for trade: An investment that is made for the purpose of generating a profit from short term fluctuations in price shall be classified under this class. An asset shall be classified as held for trade even if it is a part of a portfolio of similar assets for which there is a pattern of trading for the purpose of generating a profit from short term fluctuations in price. These investments shall be marked to market on a daily basis and differences reflected in the profit and loss account. The details relating to this shall have to be prepared in the format in Nepal Rastra Bank Directive Form No. 4.12.1.
- Investment held to maturity: Investment made with positive intent and capacity to hold till maturity falls under this class. Positive intent to hold shall not be deemed in the following circumstances:-
  - ✓ In case there is intent and capacity to hold until undefined period;
  - ✓ In case the institution stands ready to sell the assets, except in case a situation arises which is non-recurring and could not have been reasonably anticipated, owing to changes in market interest rate or risk, liquidity requirements, changes in availability of and yield on alternate investment, financial sources and terms or changes in the risks of foreign currency. Investment held to maturity shall have to be evaluated at the amortized costs. Write off costs shall be calculated having deducted impairment from cost price. Impairment shall be included in the profit/loss account of the concerned period. The details relating to it shall have to be prepared in the format referred to in Nepal Rastra Bank Directive Form No. 4.12.2.
- Investment available for sale: All investment not falling under the held for trading and held to maturity shall have to be placed under this class. Such investment shall have to be marked to market on regular basis and the difference shall have to be adjusted through reserves. Institutions shall have to put up to two percent of the available for sale portfolio in the Investment Adjustment Reserve that is calculated in the supplementary or Tier 2 capital. The details relating to it shall be prepared in the format

referred to in Nepal Rastra Bank Directive Form No. 4.12.3. In case of the investment held for trading and available for sales which have not been enlisted in the stock exchange market and having no active market, they shall be written off at the cost price and the actual investment therefore shall be presented in the balance sheet having made provision of investment adjustment reserve pursuant to Directive No. 8. Moreover, in case bonus shares are acquired, only the number of shares has to be added and it may not be allowed to mark as an income.

### **2.1.10 Meaning of Some Important Terminologies**

The study in this section comprises of some important banking terminology for which efforts have been made to clarify the meaning, which are frequently used in this research work. Their brief summary is presented below:

#### **Loan and Advances**

Loan, advances and overdrafts have occupied a huge portion for the mobilization of funds of the commercial banks. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdrafts will never cross it. Commercial Banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan and advances and overdrafts includes that amount which is given to staffs of the banks as home loan, vehicle loan, personal loan and others.

#### **Investment on Government Securities, Shares and Debentures**

Commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures. It is not the major portion of income but it is treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons. Some of them are given as:

- It may want to space its maturing so that the inflow of cash coincides with expected withdrawals by depositors of large loan demands of its customers.

- It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.
- It may also be forced to invest because the demand for loans has decreased or it is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities since depositors may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

### **Investment on other Company's Shares and Debentures**

Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of NRB directives many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. These days most of the commercial banks have purchased regional development banks, NIDC and other development bank's shares.

### **Off- Balance Sheet Activities**

Off-balance sheet activities involve contracts for future purchase and sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some good example of these items are letter of credit(L/C), letter of guarantee, bills of collections etc. nowadays, such activities are stressfully highlighted by some economist and finance specialists to expand the modern transaction of a bank.

### **Other use of Fund**

A commercial bank must maintain the minimum bank balance with NRB i.e.6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Likewise, 3% cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank. Again a part of the fund should be used

for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

### **Deposits**

Deposit is the most important source of the liquidity for each and every commercial bank. For financial strength of banks, it is treated as a barometer. In the word of Eugene, “a bank’s deposits are the amount that it owes to its customers.” A deposit is the lifeblood of the commercial banks. Even though, they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits, for accounting and analyzing purpose, deposits are categorized in three headings. They are:

- Current Deposits
- Saving Deposits
- Fixed Deposits

### **2.1.11 Terms and Conditions to Disburse Loan**

There are few reasons for inquiring various terms and conditions in extending loan to any firm or person, in order to keep their loan safe and to be repaid in time. Different financial institution have different terms and conditions to suit their own situations, which fulfill the purpose in the prevailing economic, social, political and other environment factors.

However “safety, liquidity and profitability are the prime, considerations for bankers to formulate advance policy.” (Basu, 1957) With this view in mind, the companies impose following terms and conditions:-

#### **1. Amortization Period**

Every loan does have certain amortization period. Any sort of loan extended by company should be repaid with in a stipulated time. The borrower facing to repay the loan within the amortization period. Company take some sort of action, if it delays the repayment for a longer period of time. The fixation of amortization period is very crucial task. Any kind of mistake in fixation of this period creates so many problems in making loan repayment. Therefore, while performing this delicate and vital task the special attention should be taken by the company.

However, the amortization period is fixed on the basis of expected earnings capacity of the firm/person as revealed by the financial statements like, cost, sales and profitability statements.

#### **2. Interest Rate**

As much as loan delays in making repayment of principal dues, so much will be movement, the longer the delay in making repayment of principal dues, higher will be movement in the total amount of interest to be paid along with the principal amount. And so, if the borrower can repay the loan earlier, the amount of interest to be paid will be decreased. Thus, in such situation we cannot take the interest rate as a

stimulant of facilitating quick and timely repayment of course, it can be in some extent.

Be it for the purpose of meeting various expenditure of the company or to meet shareholders obligations or to motivate quick, repayment interest rates should be set in accordance with cost of capital and not at article levels where high rat impede development, the low rat or interest can breed uneconomic projects that are viable only because they are subsidized.

### **3. Security**

The first thing, which company generally looks into is the safety of their loans. And in this most company insist upon adequate security for the loans it provide.

But security is not the only thing to go or rigidity of the finance companies should satisfy with various technical, managerial, economic and social factors of the project. Because if the project, financial on the basis of security and not with proper care about above mentioned factors, fails to run and default the loan no doubt that the lender or finance company can realize the loan amount by selling the securities.

### **4. Legal Authority to Borrow**

Such requirements will of course avoid sound, unproductive and uneconomic projects to come up. The breeding of uneconomic and unsound projects can be minimized by the way of legal authority to borrow from the related department of ministry of government. But the length and tedious process might also create uneasiness on the part of the borrower to come up with genuine project.

### **5. Soundness of the Project**

Technically, managerially and economically sound projects are those, which deserve special interest of the development by finance companies to extend necessary financial help. No finance company wishes to waste its resources in an unsound project. It is always as a condition that any business or industrial venture applying for loan with the finance companies must be sound enough to contribute to the economic

development. Every financial institution or company looks at the first hand that whether the particular project is technically, managerially and economically sound or not. That makes easy to the loan repayment timely.

## **6. Repayment Capacity**

Repayment capacity can also be taken as a condition for extending loans. It is considered that the repayment of loan is the ultimate evidence of the right allocation of fund by finance company and the source or industrial venture. So the finance companies always think about the repayment capacity of the borrower before granting loan.

In this way, we see that the finance companies of any country impose several terms and conditions in order to keep their loan safe to make it properly utilized and ultimately to get them reversed in time.

## **2.2 Review of Related Studies**

Large numbers of research were conducted by different scholars relating the varied aspects especially focused on the financial performance of the financial institutions. This chapter is confined to the review of dissertations submitted by researchers which has relevance in this research and has supported it as well.

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

Pant (1976) in his thesis, “A study of the commercial banks deposits and its utilization” has made an attempt to highlight the discrepancy between resource collection and resource utilization in their lending confined for short-term only. So, he

recommended that commercial banks should give emphasis also on long term lending for better utilization of the deposits.

Wagle (1997) has conducted: A study on Finance Companies in Nepal. The general objective of the study was to generalize the overall evaluation of the finance companies and their role in the economic development of Nepal. But the specific objectives were to analyze the trend of finance companies in Nepal for the period 1992 to 1996, to analyze the working pattern of finance companies in Nepal for the period 1992 to 1996 and to analyze the impact of these companies on the economy for the period 1992 to 1996. He has mentioned that finance companies started their operation after the implementation of liberal economic policy. In a situation when commercial banks are not able to meet individual credit needs, it is timely that finance companies have grown to replace the unauthorized, illegal upahar and dhukutee practices. Number of finance companies is growing rapidly. Finance companies have been able to generate employment for many people. Finance companies are able to encourage consumers to strengthen their purchasing power through the channel of consumer credit. Major portions of their lending in the area of consumer durables through hire purchase and housing loan. There has been gradual shift in lending policy towards term loan that consists of business and industrial loan. The interest rate on various time deposits proved to be attractive compare to commercial banks. It is found that finance companies for funds in the capital market.

Bajracharya (2047), through his article “Monetary policy & Deposit Mobilization in Nepal” has concluded that the mobilization of domestic savings is one of the monetary policies in Nepal. For this purposes commercial banks stood as the vital & active financial intermediary for generating resources in the form of deposit of the private sector so for providing credit to the investor’s in different aspects of economy (Bajracharya, 2047).

Kafle (2053), in his article entitled “NRB and its Policies for Monetary Control” opines that liberalization, the effect on deposit seems to be positive in the later period as it increased from 17.74 to 21.062% of nominal GDP. And, this, there was a positive

effect on saving mobilization however, in the case of loan and advances, commercial banks were found to be decreasing because the percentage of loans and advances to nominal GDP was only 100.6 & 11.9 in two period respectively (Kafle, 2053).

Shrestha in his article, a study on Deposit and credit commercial Bank in Nepal. Has conducted that the credit deposit ratio would be 51.30% other things are remaining the same in 2005 A.D. Which was the lowest under the period of review? So he had strongly recommended that the commercial bank should try to give more entering new field as for as possible. Otherwise, they might not be able to absorb even its total expenses.

Sapkota (2001) in his thesis “Fund mobilizing policy of Standard chartered bank Ltd and Himalayan Bank Ltd” has found, “ the main ratio of loans and advances to total deposit of SCBNL describe that it has not mobilize its collected deposit in loans and advances more than NBBL and HBL.

SCBNL has mobilized its collected deposit in investment with better than NBBL and HBL because of the highest mean ration under five years study period. SCBNL is successful in mobilizing of its collected deposits on investment more than NBBL and HBL.

The loans and advances is total making fund ratio describes the SCBNL’s position with condition in comparison to NBBL and HBL. On the basis of mean SCBNL maintain lowest ratio than NBBL position to mobilize its total working fund on loans and advances.

The mean ratio of investment on government securities to total working fund of SCBNL describes its positions better than NBBL and HBL. SCBNL has been more successful to invest its working fund in government securities than NBBL and HBL. So, it can be concluded that SCBNL has invested its fund effectively in productive activities more than NBBL and HBL.

In the mean ratio on investment on share and debentures to total working fund, SCBNL seems in weak condition than NBBL is in slightly strong position than HBL”

Acharya (2002) has conducted: “A study on investment and deposit pattern of joint venture of banks in Nepal”. The objective of this study was to carry out the comparative analysis and evaluation of deposit collection and investment of Nepal Bangladesh Bank Ltd.(NBB) and Himalayan Bank Ltd.(HBL). This study has covered the time span of FY 1995/96 to 1999/2000. In this study, he has used financial ratios viz. liquidity profitability and turnover, statistical tools viz. Karl Pearson’s correlation coefficient, coefficient of variation and simple average. The researcher found that average fixed deposit to total deposit of NBB was found to be greater than average ratio of HBL. But the average ratio with respect to short term loan to total deposit of HBL was greater than that of NBB. In regard to investment in government securities HBL proved to be better than NBB during the study period. So on the whole HBL was superior to NBB with respect to total investment to total deposit ratio.

Agrawal (2002) in the thesis entitled, “A study on deposit and investment position of Yeti Finance Company Limited” has tried to examine the trend of deposit position of Yeti Finance Company. That study was conducted on the basis of secondary data and used various tools to analyze the data. Study just covered only period of five years i.e. 1997 to 2001. The researcher has found that the deposit policy is not stale but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment the researcher concluded that Finance Company has been found profit oriented, ignoring the social responsibility which is not a fair strategy to sustain in long run. Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

Karmacharya (2005) in his thesis paper “A Study on the Deposit Mobilization by the Joint Venture Banks” has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. He has concluded that Nepal Bank’s utilization side is weak as compare to the collection of resources. He suggested for extending its branches, so NBL’s deposit collection and also long-term as well as short-term credit may increase. He has recommended not to consider security factor only but to provide loan to genuine projects without securing.

Shrestha (2006) conducted: A research on investment portfolio of Pokhara Finance Company Ltd.” In her study she has analyzed deposit mobilization and investment trends in different sector made by the company. Six years of data from 2055 B.S to 2061 B.S has been taken into consideration for conducting the research. The researcher found that the said company has high liquidity during the period and has focused more on loan and advances than on other government securities. From the study, she has concluded that Pokhara Finance has to relate to immanence of appropriate risk return tradeoff between credit outflow by the way of loans and investments and strict monitoring of its repayment to ensure timely case inflows. She further recommended launching demand driven or customer oriented schemes so as to initiate depositors and to focus on diversification of investments.

Baral (2007) has conducted dissertation on the topic of “Deposit collection and Investment Pattern of MBL”. His major objectives of study were to measure the trend of Investment Composition of MBL, evaluate liquidity, profitability and risk position, analyze different ratios like as growth ratio, loan and advance, total investment and net profit. The study covered six years from 2000/01 to 2005/06 liquidity ratio, activity ratio, profitability ratio, risk ratio and growth ratios were used as major tools for finding the outcomes of the study. Finally, he concluded satisfactory on deposit collection, investment made on government securities and company’s bond, share and debt. And also the bank had made good level of resource utilization in order to attain the profitability position. But he indicated that the bank had been facing lack of sound credit policy which lead to the higher position of risk.

Karki (2008) has conducted: “A study on Deposit Collection, Loan Disbursement and Loan Recovery of Fewa Finance Company Limited”. According to him the deposit collection trends is increased and almost of the type wise deposit collection also increase. Similarly, the amount of total loan is also increased. The housing loan, business loan and hire purchase loan purposes are covered high amount of loan. Most of loan customers are paid the interest with rebate and companies are needed to retain these customer satisfaction. The hire purchase loan has taken 23.71% of the total loan of FFCL on his study period i.e. fiscal year 2059/60 to 2063/64.

Palikhe (2010) in his thesis, “An analysis on Deposit Mobilization of Commercial Banks” the deposit growth ratios of total commercial banking system, NBL and SCBNL, these all have the positive growth in deposit and investment but NBL has the negative growth in loan and advance and return in the growth point of view SCBNL is stronger than NBL and is seemed weaker than SCBNL and even than in these ratios correlation coefficient. NBL has the negative results on each test. It means NBL are not significantly correlated with each other during this period.

Poudel (2011) has conducted: A study on deposit collection and investment pattern of Bishal Co-operative Society Limited." His major objectives of study were to measure the trend of Investment composition of Bishal co-operative, evaluate liquidity, profitability and risk position analyze different ratios like as growth ratio, loan and advance, total investment and net profit. The study covered 5 years from F/Y 2004/2005 to F/Y 2008/2009 liquidity ratio, current ratio, activity ratio, profitability ratio risk ratio and growth ratios were used as major tools for finding the outcomes of the study. Finally, he concluded satisfactory on deposit collection, investment made on companies share and loan and advances. And also the co-operative had made good level of resource utilization in order to attain the profitability position.

Adhikari (2012) has conducted a research on impact of interest rate on mobilization of commercial banks in Nepal. Her objectives of the study were to analyze the impact of interest rate on mobilization of funds, to study the relationship between total deposit

and interest expenses, to study the relationship between total lending and interest income. The study covered 10 years from FY 2001/02 to FY 2010/11. She concluded that growth rate of total deposits of MBL is the highest among other banks. MBL is able to collect more deposits. Growth ratio of HBL is the lowest than other banks which shows that HBL seems weak in deposit collection. NIBL has the highest growth ratio of interest expenses and HBL has the lowest growth ratio of interest expenses which shows that HBL is decreasing its interest expense by collecting less deposit. The high volume of loan and advances is indicative of good performance in credit sector. The growth of NIBL is the highest among other banks. The high degree of loan and advances give high generation of income for the banks and vice-versa.

### **2.3 Research Gap**

Going through the review of various articles, publications and also the unpublished research works previously some researcher have done research on Deposit collection and mobilization of Nepal SBI bank ltd. As long as researchers know, no specific research has yet been able to go in-depth of the topic and has successfully accomplished the specified objective of the research work. This research will fulfill the research gap by including and analyzing the recent seven years data of the related topic and using some statistical tools and by adding some new literature. This study will show the effectiveness of deposit collection and mobilization of Nepal SBI bank ltd by using descriptive and analytical research design.

From the above review of related study, there is several research works are conducted by the researchers but there is no recent research work relating to Nepal SBI bank in this topic. Therefore, this study is own type and this research is focused on the study of deposit collection and mobilization of Nepal SBI bank ltd. This study attempts to analyze the trend and growth of deposit collection and mobilization. This research is done with the help of different articles published on journals and websites, books and some topic related to dissertations and annual reports of Nepal SBI bank ltd.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

This chapter is concerned with procedures that are adopted in this research work. It includes research design; justification of selection of the study unit, nature and sources of data, methods of data collection, data analysis tools and limitations of methodology. To accomplish the objectives mentioned above in chapter one, the study has adopted the following research procedures.

#### **3.1 Research Design**

This study is case study and designed within the framework of descriptive and analytical research design to achieve the objective of the study. Descriptive research seeks to find out the fact with the help of sufficient data and information. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate deposit collection and mobilization of Nepal SBI Bank Limited.

#### **3.2 Selection of Study Unit**

Nepal SBI Bank is the first Indo Nepal Joint Venture in the financial sector. Sponsored by three Institutional promoters, namely, State Bank of India, Karmachari Sanchaya Kosh (Employee Provident Fund) and Agricultural Development Bank through memorandum of understanding signed on 17<sup>th</sup> July 1992, the bank came into operation on 8<sup>th</sup> July 1993. There are 31 Commercial Bank till mid July 2012 A.D. The primary reason for selection of Nepal SBI Bank Ltd. as study unit is easily availability of required financial information and data on its official website. In addition, the other reason of selecting this Bank is due to its past performance and record of accomplishment. In due course of its operation, Nepal SBI Bank has taken a leading and sensitive role in Nepalese financial intermediation. Nepal SBI Bank has

extended their branches in different parts of the kingdom with the increase in scale of operation. Thus in view of wide range of operation of Nepal SBI Bank, this study attempts to give the actual glimpse on efficient mobilization of idle saving of individuals collected in form of deposits and also provide prompt corrective actions for self regulation mechanism and problem solving.

### **3.3 Nature and Sources of Data**

This study is conducted on the basis of secondary data. So secondary source is the major source for data required to conduct research work. The annual reports of the bank form the major sources of data. The regulatory data were collected from NRB directives and reports. The basic conceptual information was collected NRB publications and working papers.

According to the need and objectives, all the secondary data are compiled. Processed and tabulated, In order to judge the reliability of data provided by the banks and other sources, they were compiled with the annual reports of auditors. Formal and informal talks to the concerned head of the department of the bank were also helpful to obtain the additional information of the related problem.

Specifically, the required data for the study has been collected from the concerned organizations and a number of publishers. Supplementary data and information are collected from the NRB reports and bulletins, published and unpublished articles and reports, magazines and electronic data from various websites such as official websites of Nepal SBI Bank Ltd. as well as official websites of NRB and various publication related to the subject matter of the study.

### **3.4 Data Collection Method**

As stated earlier the study is based on secondary data the annual reports and other information of Nepal SBI Bank Ltd. have been obtained from the Pokhara Branch and website of the bank, NRB directives. Banking and Financial Statistics and other publications are collected from the website of NRB. Existing literature on the subject matter was collected from various research paper placed in Western Regional Library

(T.U), Pokhara. Likewise, the review of working papers conducted by various international scholars on the related matter was done through internet surfing to various websites. The conceptual review was done through assistance of related text books by various writers and publications.

### **3.5 Data Analysis Tools**

Presentation and analysis of the collected data is the core of the research work. The collected raw data are first presented in systematic manner in tabular forms and then are analyzed by applying different financial and statistical (descriptive) tools to achieve the research objectives. Besides, some graphs, charts and tables are presented to analyze and interpret the findings of the study. The data analysis tools are discussed below.

#### **3.5.1 Financial Ratio Analysis Tools**

Financial ratio analysis tools basically help to analyze the financial strength and weakness of a firm. Ratio is one of the important financial tools that have been used in the study. Ratio is simply one number expressed in term of another and it expresses the quantitative relationship between any two numbers. There are different ratios to analyze and interpret the financial statement of a bank however financial ratios related to the subject matter of the research is used in the study which are as below.

##### **Total Liquid Fund to Total Deposit Ratio**

Total liquid funds to total deposits ratio is the expression of numerical relationship between total liquid funds and total deposits of a bank. It measures the proportion of total liquid funds in total deposits. Furthermore, it shows the overall short –term liquidity position. The higher ratio implies the better liquidity position and lower ratio shows the inefficient liquidity position of the bank. It is calculated by using the following model:

$$\text{Total Liquid Funds to Total Deposits Ratio} = \frac{\text{Total Liquid Fund}}{\text{Total Deposit}}$$

Where Total liquids funds = cash in hand + foreign currency in hand + balance with NRB + balance with domestic bank + balance held abroad + calls deposits.

### **Cash Reserve Ratio (CRR)**

It is the minimum amount of reserves a bank must hold in the form account balance with NRB and cash held in vault. This ratio ensures minimum level of the bank's first line of defense in meeting depositor's obligations. Commercial banks are required to maintain cash reserve ratio in two forms. NRB Balance and Cash at Vault specified as the percentage of total deposits as follows:

### **NRB Balance to Total Deposits Ratio**

NRB balance to total deposit ratio shows the numerical relationship between NRB balance and total deposits of a bank. It measures the proportion of NRB balance in total deposits. Following model is used to determine the NRB balance to total deposits ratio

$$\text{NRB Balance to Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Total Deposit}}$$

### **Cash in Vault to Total Deposit Ratio**

Cash in Vault to total deposits ratio includes the relationship between cash in vault to total deposits. It shows the percentage of total deposit maintained as vault. It worked out by using the following model.

$$\text{Cash in Vault to Deposit Ratio} = \frac{\text{Cash in Balance}}{\text{Total Deposit}}$$

### **Loan and Advances to Total Deposit Ratio**

Loan and advances to total deposit ratio measures the proportion of total deposits mobilized by granting loan and advances. It shows the extent to which bank is capable of mobilizing its total deposits in loan and advances for the purpose of income generation. Higher ratio indicates better mobilization of total deposit collected and so

vice versa. However from the liquidity view higher ratio is not preferable. It is calculated as below.

$$\text{Loan and advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

Where,

Loan & Advances = Total long term loan + current liabilities.

### 3.5.2 Statistical Tools

#### Average/Mean

A simple arithmetic mean is used to summarize the data as a representative of mass data. A mean is the average value or the sum of all observations divided by the number of observations. Mean is expressed as Mathematically:

Arithmetic Mean (AM) is given by,

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

Where,

$\bar{X}$  = Arithmetic mean

$\sum x$  = Sum of all the values of the variable X

n = Number of observation

#### Standard Deviation

The measurement of the scatterings of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, larger will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as home gently of a series, a large standard deviation means just the opposites. In this study, standard deviation of different ratio is calculated.

$$\text{S.D.} = \sqrt{\frac{\sum X^2}{N} - \frac{(\sum X)^2}{N}}$$

### Co-efficient of variance (C.V)

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

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

Where,

$$\text{Standard deviation (S.D.)} = \sqrt{\frac{\sum X^2}{N} - \frac{(\sum X)^2}{N}}$$

### Coefficient of Correlation Analysis (r)

“Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of sigma. Among the various methods of finding out coefficient of correlation, Karl Pearson’s method is applied in the study. The result of coefficient of correlation is always between +1 & -1. When  $r = +1$ , it means there is perfect relationship between two variables & vice versa. When  $r = 0$ , it means there is no relationship between two variables. The Karl Pearson coefficient of correlation (r) is given as below.

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

### Probable Error (P.E)

Probable error is measured for testing the reliability of an observed value of correlation coefficient. It is computed to find the extent to which it is dependable. If correlation coefficient is greater than 6 times P.E the observed value of r is said to be significant, otherwise nothing can be concluded with certainty. But if the calculated (r) is less than the P.E correlation is not at all significant. It is calculated by using following formula:

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

Where,

P.E. (r) = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observations

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

- Correlation between Deposits and Loan and advances.
- Correlation between Deposits and Investments.

### **Least Square Trend Analysis**

Least square trend analysis has been used to find out the trend of total deposits, loan and advances and investments. The general equation used for trend is given by:

$$Y = a + b x$$

Where,

y = Dependent Variables,

x = Coded time in year (independent variable)

a = y – intercept,

b = slope of the trend line.

## CHAPTER IV

### DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of data collected from different sources. The study is conducted with reference to deposit collection and mobilization of Nepal SBI Bank Ltd.

#### 4.1 Structure of Deposits

Deposit collection is one of the major functions of commercial banks as deposits are the primary source of fund. Commercial bank collects deposit of public in different forms of deposits like saving deposit, current deposit, fixed deposit etc. Deposits collected are to be well managed since it is the liability of the bank and there is involvement of cost in form of interest earned which is to be paid to the depositors. Based on cost, deposits are categorized as two group one as non-interest bearing deposits and other as interest bearing deposits. Non-interest bearing deposit comprises of current deposits (both local and foreign currency), margin deposits (L/C, guarantee) and other deposits (financial institutions, organized institutions and individuals). Likewise interest bearing deposits comprises of saving deposits, fixed deposits (of financial institutions and other organized institutions), and call deposits (of financial institutions and other organized institutions). The total deposit of the bank is the sum of non-interest deposits and interest bearing deposits, which are given in Table 4.1.

**Table 4.1**  
**Deposit Composition of Nepal SBI Bank Limited**

(Rs in millions)

Fiscal Year	Non-interest bearing deposits		Interest bearing deposits		Total Deposits Amount
	Amount (Rs)	Percent	Amount (Rs)	Percent	Amount (Rs)
2006/07	202841	17.73	941687	82.27	1144528
2007/08	186053	13.57	1185485	86.43	1371538
2008/09	305125	10.91	2490596	89.09	2795721
2009/10	298496	8.56	3191145	91.44	3489641
2010/11	440557	10.39	3800986	89.61	4241543
2011/12	408303	7.66	4925423	92.34	5333726
2012/13	528275	8.97	5363770	91.034	5892045
Mean	338521.4286	11.11	3128441.714	88.89	3466963.143
S.D	116900.6295		1587716.506		1698797.531
C.V	34.5327		50.7510		48.9995

Source: Appendix III.

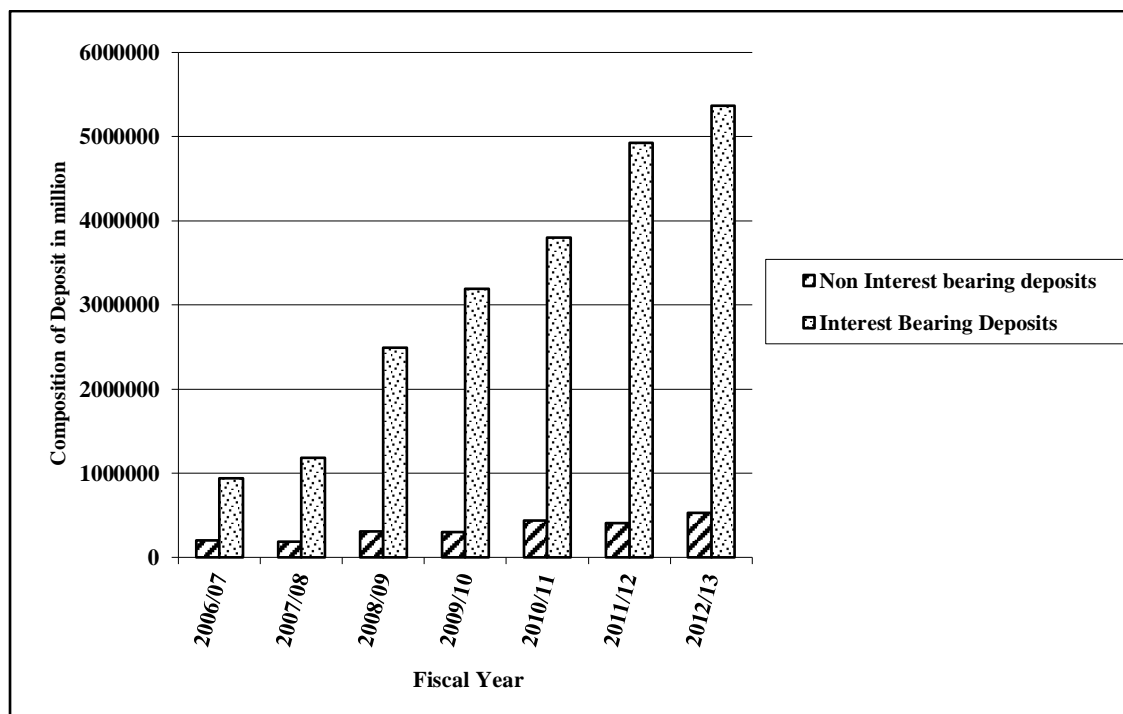
Table 4.1 shows that volume of deposit is quite fluctuating over the first six years and then it increased dramatically in last year 2012/13. The deposits volume is minimum with Rs 1144528 millions in year 2006/07 and is maximum with Rs 5892045 millions in the year 2012/13. The deposit volume is almost consistent from 2006-2012 as there were increment of so many other commercial banks and financial institutions that diverted the customer deposit. But in the year 2012 it rose up as the bank had launched new deposit scheme with comparatively higher rate of interest and other facilities. The total deposits volume the interest bearing deposits covers the major part than of non-interest bearing deposits. Both the non-interest bearing deposit and interest bearing deposits are consistent in the year 2006 to 2011 and later increased in 2012. This indicates that Nepal SBI Bank Ltd. has been successful in capturing the deposits from the market during the study period of seven year.

The mean of Interest bearing deposit is the higher than the mean of non-interest bearing deposit. High degree of variation of the bank is caused by increasing trend of

deposits during the period. The C.V of Interest Bearing Deposit is higher than C.V of Non- Interest Bearing Deposit which indicates that the higher volatility in Interest Bearing Deposit as comparing with Non- Interest Bearing Deposit.

**Figure 4.1**

**Deposit Composition of Nepal SBI Bank Limited**



The data from Table 4.1 is plotted in Figure 4.1 shows the observed total deposits of the SBI bank ltd. within the study period of last seven years. In the chart, the interest bearing deposit covers the major portion of the total deposit volume. The bar diagram of total deposit volume cover the year 2006 to 2012 is quite at the consistent level where as in 2012 it is the highest. The interest bearing deposits trend over the seven years is also observed to the same as the trend of total deposit volume. Whereas as the interest free deposit volume is in fluctuating up to 2009 and it is increasing trend from 2010 to 2012. Overall it indicates banks capacity to collect maximum the deposit volume from the public.

#### **4.1.1 Structure of Interest Bearing Deposits**

Deposit collection is one of the major functions of commercial banks as deposits are the primary source of fund. Commercial bank collects deposit of public in different forms of Interest bearing deposits and non- interest bearing. Interest bearing deposit covers the major portion of deposit which comprises of saving deposits, fixed deposits

of financial institutions and other organized institutions, and call deposits of financial institutions and other organized institutions. Table 4.2 presents the structure of Interest Bearing Deposits.

**Table 4.2**  
**Structure of Interest bearing deposits**

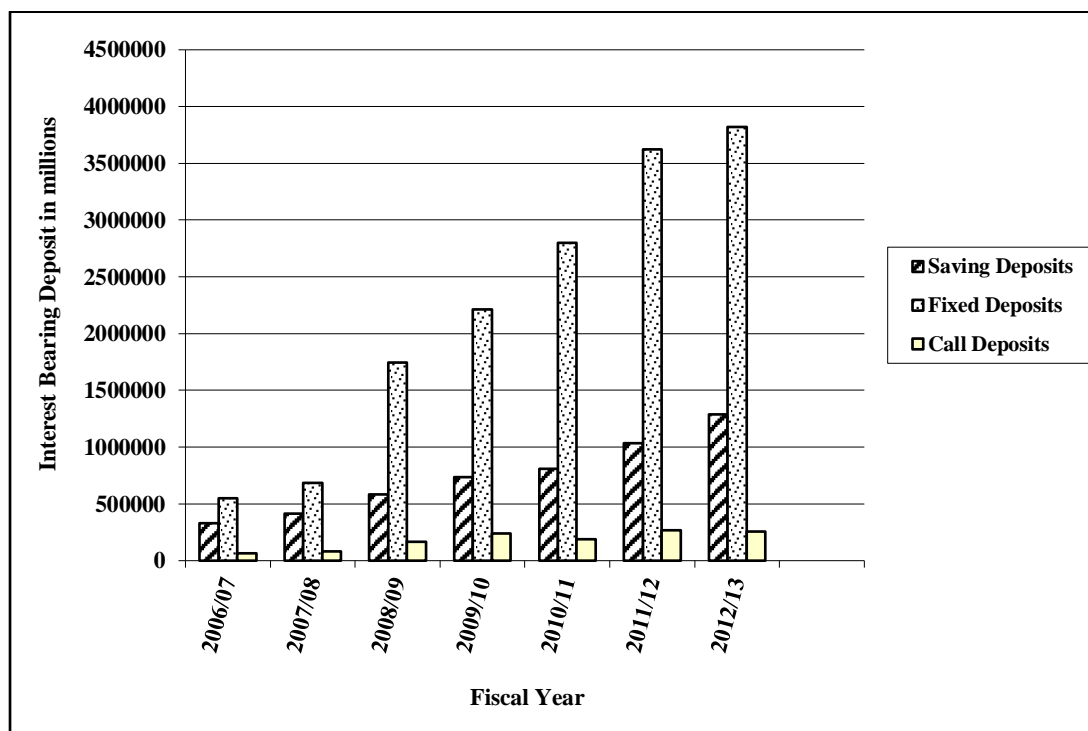
(Rs. in millions)

<b>Fiscal Year</b>	<b>Saving Deposits</b>	<b>%</b>	<b>Fixed Deposits</b>	<b>%</b>	<b>Call Deposits</b>	<b>%</b>	<b>Total</b>	<b>%</b>
2006/07	327469	34.784	551746	58.59	62471	6.63	941686	100
2007/08	417117	35.19	685488	57.82	82879	6.99	1185484	100
2008/09	582229	23.38	1743840	70.02	164526	6.60	2490595	100
2009/10	734896	23.03	2214894	69.41	241354	7.56	3191144	100
2010/11	807924	21.26	2801355	73.70	191707	5.04	3800986	100
2011/12	1034458	21.00	3620865	73.51	270099	5.49	4925422	100
2012/13	1288713	24.03	3817900	71.18	257155	4.79	5363768	100

Source: Appendix III.

Table 4.2 shows the structure of interest bearing deposits of Nepal SBI Bank Ltd. within the study period of last seven years. Further this table shows deposit collection during the study period fixed deposit covers the major portion of the deposit collection it is the higher then compares to saving deposit and call deposit. In saving deposit 21 % is the minimum in the year 2011/12 and it is maximum of 34.784% in the year 2006/07 which shows in fluctuating over the study period. Fixed deposit cover almost the major part of deposits it is also a quite fluctuating over the study period and call deposit is in fluctuating with 7.56% is the maximum in the year 2009/10 and minimum of 4.79 in the year of 2012/13.

**Figure 4.2**  
**Structure of Interest bearing deposits**



The data from Table 4.2 is plotted in Figure 4.2 shows the structure of interest bearing deposit of Nepal SBI Bank Ltd. which consists of fixed deposit, saving deposit and call deposit. Further this figure shows that major part is cover by fixed deposit which is in increasing each year during the study period of last seven years and both the saving deposit and call deposit is in increasing each year during the study period.

#### 4.1.2 Structure of Non- Interest Bearing Deposits

Deposit collection is one of the major functions of commercial banks as deposits are the primary source of fund. Commercial bank collects deposit of public in different forms of Interest bearing deposits and non- interest bearing. Non-interest bearing deposit covers the small portion of deposit as compare to interest bearing deposits of Nepal SBI Bank Ltd. Non- interest bearing deposits of Nepal SBI Bank Ltd. comprises of Current deposits of financial institutions and other organized institutions, and Margin deposits of financial institutions and other organized institutions.

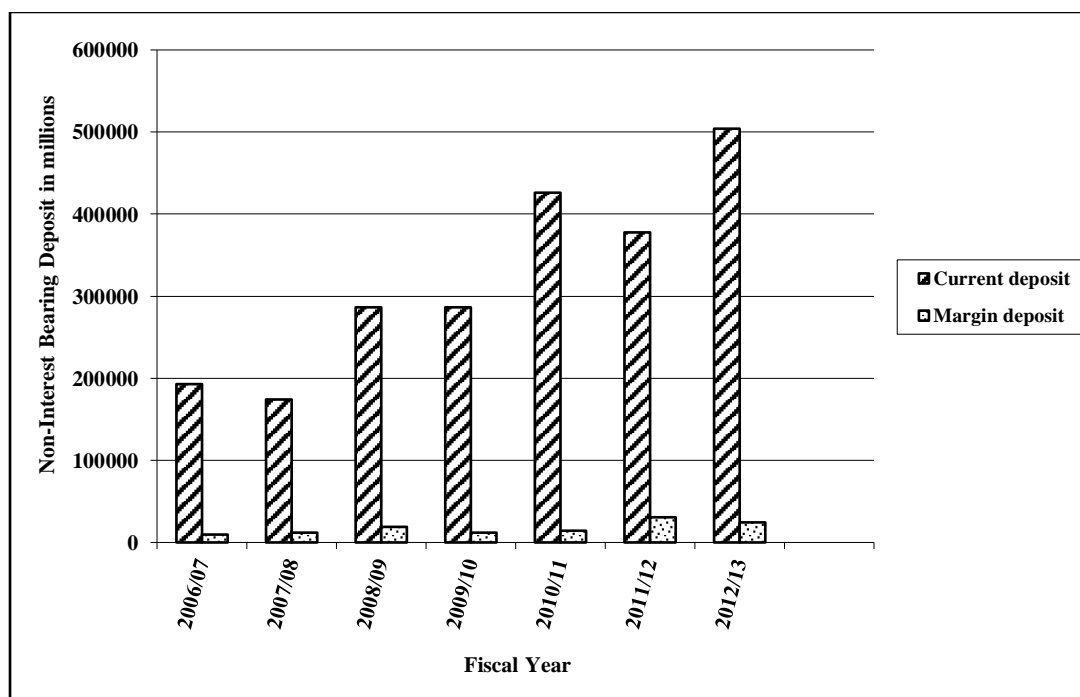
**Table 4.3**  
**Structure of Non-interest bearing deposits**

Year	Current Deposits (Rs. in Millions)	%	Margin Deposits (Rs. in Millions)	%	Total Deposit (Rs. in Millions)	%
2006/07	193043	95.17	9798	4.83	202841	100
2007/08	173810	93.42	12243	6.58	186053	100
2008/09	286473	93.89	18652	6.11	305125	100
2009/10	286187	95.88	12308	4.12	298495	100
2010/11	425941	96.68	14615	3.32	440556	100
2011/12	377785	92.53	30517	7.47	408302	100
2012/13	503712	95.35	24562	4.65	528274	100

Source: Appendix III.

Table 4.3 shows the structure of non-interest bearing deposit of Nepal SBI Bank Ltd. which comprises of current deposit, margin deposit and others. As shown above current deposit covers the major portion of deposit then the margin deposit as current deposit and margin deposit is in fluctuation over the study period of last seven years.

**Figure 4.3**  
**Structure of Non-interest bearing deposit**



The data from Table 4.3 is plotted in Figure 4.3 shows the structure of non- interest bearing deposit of Nepal SBI Bank Ltd. which consists current deposit, margin deposit and others deposit. As above shows that major part is cover by current deposit which is in increasing each year during the study period of last seven years and margin deposits is quite fluctuating in the year 2006/07 to the year 2010/11 and increase maximum in the year 2011/2012 then again it is decrease in the year 2012/13 so it is in fluctuating over the study period.

## 4.2 Growth and Trend Analysis of Deposit

Bank collects the scattered saving from the public in the form of deposits. The volume of credit extension depends upon the deposits base of a bank besides other factors. Deposits are the most sensitive liability of the commercial banks. Deposits are the main sources of the resources of commercial banks. Deposits are received from various forms and on the name of different accounts. Deposits are categorized into Interest Bearing Deposit and Non- interest bearing deposit. Interest Bearing deposits which consists of Saving Deposit, Fixed Deposit and Call Deposits. On the other hand non-Interest bearing deposit which Consist of Current Deposit and Margin Deposit. The Annual Growth and Trend in Total Deposits from F.Y. 2006/07 to F.Y. 2012/13 has been presented in the table 4.4 below:

**Table 4.4**  
**Annual Growth and Trend in Total Deposits**

Year	Total Deposits	
	Amount (Rs. in millions)	Growth rate (%)
2006/07	1144528	-
2007/08	1371538	19.83
2008/09	2795721	103.84
2009/10	3489641	24.82
2010/11	4241543	21.54
2011/12	5333726	25.74
2012/13	5892045	10.46
Average growth rate (%)		34.37

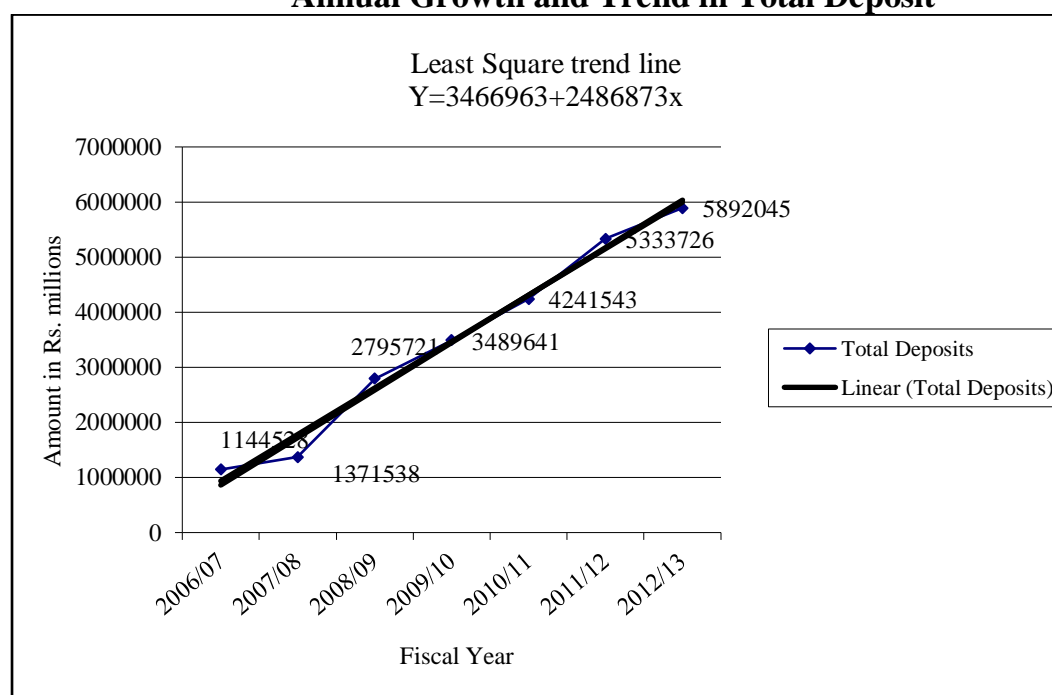
Source: Appendix IV.

As shown in Table 4.4 the total deposits of Nepal SBI Bank Ltd. i.e. the sum of Interest Bearing Deposit and Non-interest Bearing Deposits. Total deposits increased from Rs 1144528 millions in FY 2006/07 to Rs 5892045 millions in FY 2012/13, the growth rate has dramatically increased at a significant rate of 103.84 percent during the FY 2008/09 with thrust in marketing as well as Bank has obtained Foreign Currency Deposits in Bank's Book and extension of branches. During the FY 2009/10, 2010/2011, 2011/12, 2012/13 the growth rate were 24.82%, 21.54%, 25.74%, 10.46% respectively. This has shown an average growth rate of 34.37 percent per annum.

The reason behind increase and decrease in deposit collection amount in commercial banks are due to the fluctuation rate of deposit collection in saving, current, fixed and call deposits. The increasing trend of deposit has attributed mainly due to the increasing money income in the people's hand and their increasing saving habit. On the other hand, the slowdown in securities market as well as the lack of alternative investment opportunities and large portion of the deposits being of a stable and fixed nature were responsible for the argumentation in deposits

**Figure 4.4**

**Annual Growth and Trend in Total Deposit**



The data of Table 4.4 are plotted in Figure 4.4, with total deposits on the Vertical axis and fiscal year on horizontal axis. From the figure, it is clear that the annual growth of each year is increasing. Between the FY 2006/07 to 2012/13, growth rates of deposits varied from a lowest 10.46 percent in FY 2012/13 to a highest 103.83 percent in FY 2008/09. In the FY 2011/12, it was increased at the increasing rate of 25.74 percent. Then after, it was increased at the diminishing marginal rate. Therefore Annual Growth and Trend in Total deposit is in increasing rate Least Square Trend line of Total deposits is

$$Y=3466963+2486873x.$$

**Table 4.5**

**Annual Growth and Trend of Interest Bearing Deposit**

Fiscal year	Saving Deposit		Fixed Deposit		Call Deposit		Total Interest Bearing Deposits	
	Amount (Rs. in millions)	Growth rate (%)	Amount (Rs. in millions)	Growth rate (%)	Amount (Rs. in millions)	Growth rate (%)	Amount (Rs. in millions)	Growth rate (%)
2006/07	327469	-	551746	-	62471	-	941686	-
2007/08	417117	27.37	685488	24.23	82879	32.66	1185484	25.88
2008/09	582229	39.58	1743840	154.39	164526	98.51	2490595	110.09
2009/10	734896	26.22	2214894	27.01	241354	46.69	3191144	28.12
2010/11	807924	9.93	2801355	26.47	191707	-20.57	3800986	19.11
2011/12	1034458	28.03	3620865	29.25	270099	40.89	4925422	29.58
2012/13	1288713	24.57	3817900	5.44	257155	-4.79	5363768	8.89
<b>Average Growth Rate (%)</b>		25.95		44.46		32.23		36.95

Source: Appendix V.

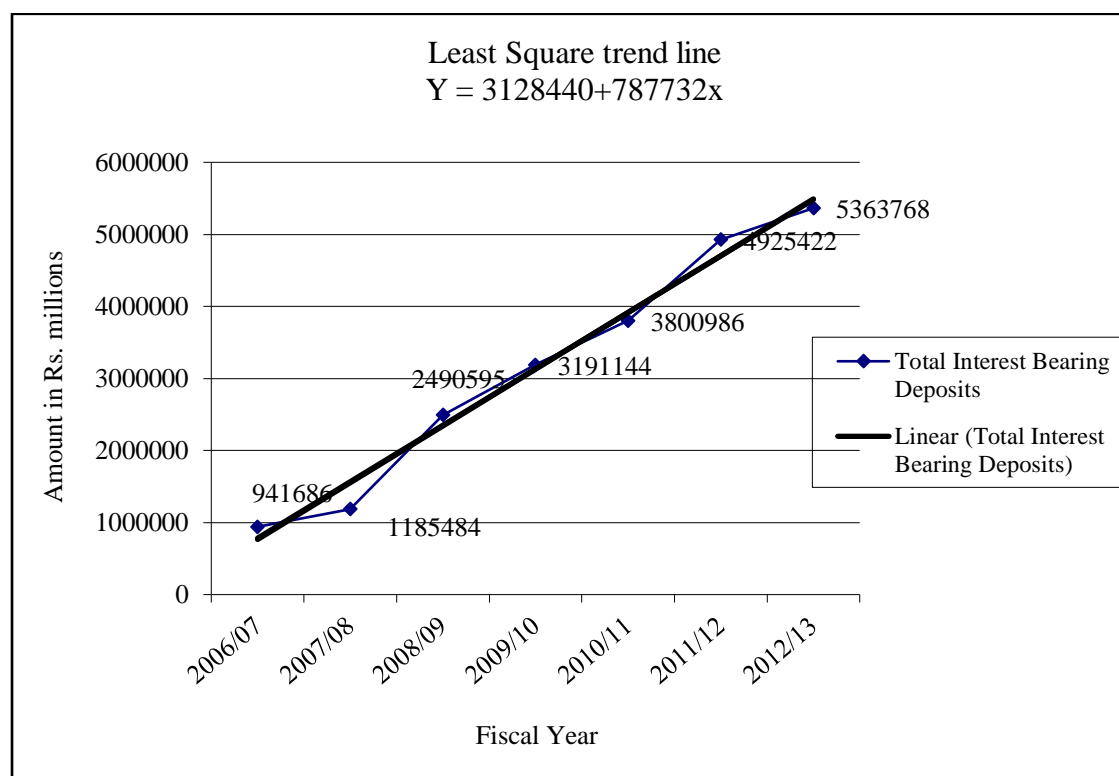
Table 4.5 shows the annual growth of interest bearing deposit during the study period. The total deposits compose of Saving Deposit, Fixed Deposit and Call Deposit is Rs 941686 millions in FY 2006/07 and then it is increasing in each year up to the FY 2012/13 is Rs 5363768 millions. Fixed Deposit has highest average growth rate of 154.39 per annum while saving deposit has lowest average growth rate of 39.58 percent per annum and Call Deposit with the average growth rate of 98.51 percent per

annum. Here the growth rate of interest bearing deposit is highest i.e. 110.09 % and then it is diminishing marginal rate by 28.12%, 19.11%, 29.58%, 8.89%, in FY 2009/10, 2010/11, 2011/12 and 2012/13 respectively. The amount of total deposit range from Rs 941686 millions to Rs 5363768 millions it shows that there is satisfactory consistency over the study period.

Fixed Deposit is more appropriate to lend because it cannot withdraw by the depositors before the expiry of the date. So company can mobilize the amount of fixed deposit in to productive sector and gain more benefit. Therefore, the company should try to improve their increase percentage of fixed deposit to total deposit.

**Figure 4.5**

**Annual Growth and Trend of Interest Bearing Deposit**



The data of table 4.5 are plotted in figure 4.5 with annual growth rate of Interest bearing deposit on vertical axis and fiscal year on horizontal axis. From the figure, it is clear that the annual growth rate of each year is increasing. Between the FY 2006/07 to 2012/13, growth rates of interest bearing deposit varied from a lowest 8.89 % in FY 2007/08 to a highest 110.09% in the FY 2008/09. Least Square Trend line of Total Interest bearing deposit of Nepal SBI Bank Ltd is  $Y=3128440+787732x$ .

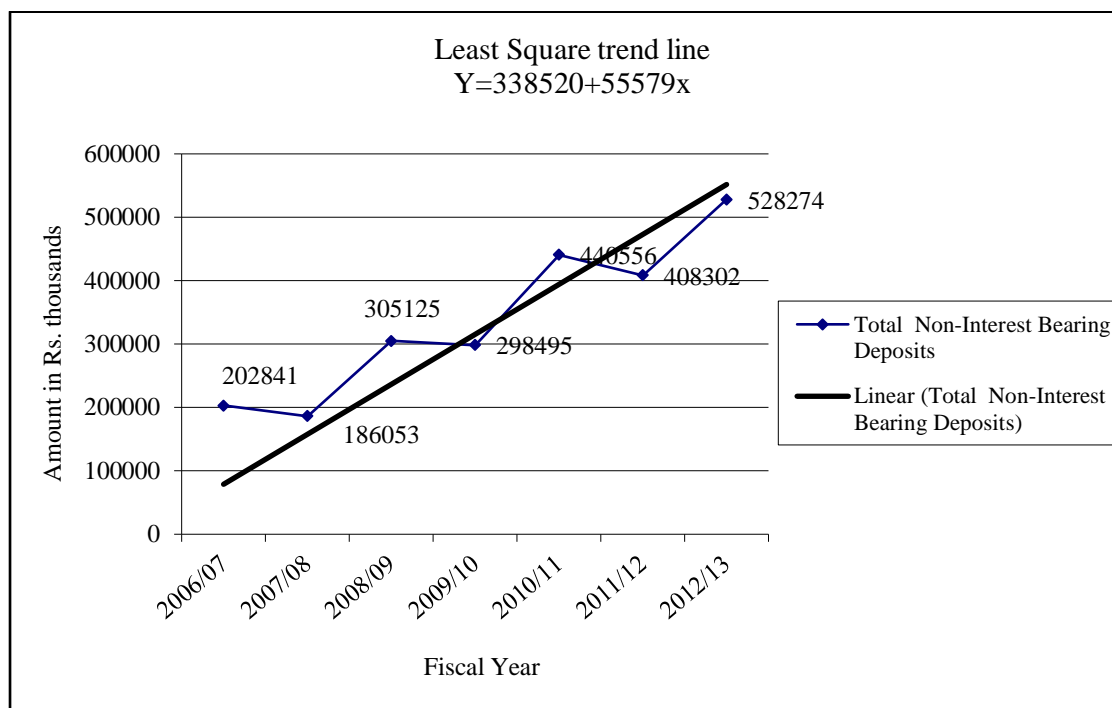
**Table 4.6**  
**Annual Growth and Trend of Non-Interest Bearing Deposits**

Fiscal Year	Current deposit		Margin deposit		Total non-interest bearing Deposit	
	Amount (Rs. in millions)	Growth rate (%)	Amount (Rs. in millions)	Growth rate (%)	Amount (Rs. in millions)	Growth rate (%)
2006/07	193043	-	9798	-	202841	-
2007/08	173810	-9.96	12243	24.95	186053	-8.27
2008/09	286473	64.81	18652	52.34	305125	63.99
2009/10	286187	-0.09	12308	-34.01	298495	-2.17
2010/11	425941	48.83	14615	18.74	440556	47.59
2011/12	377785	-11.30	30517	108.80	408302	-7.32
2012/13	503712	33.33	24562	-19.51	528274	29.38
<b>Average Growth rate (%)</b>		20.93		25.22		20.53

Source: Appendix VI.

Table 4.6 shows the annual growth of non-interest bearing deposit during the study period. The non- interest bearing deposits of Nepal SBI Bank Ltd composed of Current Deposit and Margin Deposit. The total deposit of non interest bearing deposit is Rs 202841 millions in FY 2006/07 and then it is decreasing and increasing up to the FY 2012/13. Here the total deposit of non- interest bearing deposit is increasing rapidly during FY 2010/11 and 2012/13 i.e. 47.59%, 29.38% and highest increasing growth rate is 63.99% during FY 2008/09 and total deposit of non- interest bearing is declining during the FY 2007/08, 2009/10, 2011/12 i.e. -8.27%, -2.17%, -7.32% respectively. The amount of total deposit of non- interest deposit range from Rs 202841 millions to Rs 528274 million during the study period of seven years.

**Figure 4.6**  
**Annual Growth and Trend of Non-Interest Bearing Deposits**



The data of table 4.6 are plotted in figure 4.6 with annual growth rate of Non-Interest bearing deposit on vertical axis and fiscal year on horizontal axis. From the figure, it is clear that the annual growth rate of each year is increasing. Between the FY 2006/07 to 2012/13, growth rates of interest bearing deposit varied from a lowest - 2.17 % in FY 2009/10 to a highest 63.99% in the FY 2008/09. Least Square Trend line of Total Non- Interest bearing deposit of Nepal SBI Bank Ltd is  $Y=338520+55579x$ .

### 4.3 Analysis of Liquidity Position of the Bank

The level of liquidity influences the ability of a banking system to withstand shocks. Liquidity risk arises when and FI's liability holders like depositors demand immediate cash for the financial claims they hold with an FI. The most liquid asset is cash, which FIs can use directly to meet liability holders demand to withdrawn funds. Day to day withdrawals by liability holders are generally predictable and large FIs can expect to borrow additional funds on the money and financial markets to meet any sudden shortfalls of cash. At times FIs face a liquidity crisis due to either a lack of confidence on the FIs problem or some unexpected need for cash, the liability holders may

demand larger withdrawals than usual. This turns the FI's liquidity problem into a solvency problem and causes it to fail (Saunders and Cornett, 2004).

A commercial bank must maintain satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits withdrawal, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to the bank and without consequent impact on long run profitability of the bank. To measure the liquidity position of the bank, the following measures of liquidity ratio has been calculated and its analysis has been done below.

### 4.3.1 Liquid Assets to Total Ratio

The ratio of liquid assets to deposit measures the levels of liquid assets available with the bank to meet short- term obligations. It measures overall liquidity position. Cash in hand, foreign currency in hand; balance with NRB, balance with domestic bank, balance held abroad and money at call are included in total liquid fund. This ratio is computed by dividing liquid assets by total deposits. The higher ratio implies the better liquidity position and lower ratio shows the inefficient liquidity position of the bank. As per NRB direction, only investments in government securities are considered as liquid.

**Table 4.7**

#### **Liquid Funds to Total Deposit Ratio**

<b>Fiscal Year (as at mid July)</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Liquid funds (in million Rs)	4563.71	4835.08	1496.98	2070.48	2460.34	3154.55	3509.43
Total Deposits (in million Rs)	11445.28	13715.39	27957.22	34896.42	42415.44	53337.26	58920.46
Liquid assets to Total deposits (%)	39.87	35.25	53.55	59.33	58.01	59.14	59.56
*Industrial Average (%)	13.34	13.06	15.7	18.81	16.29	14.26	18.64
Variance from Industrial Average (%)	+26.53	+22.19	+37.85	+40.52	+41.72	+44.88	+40.92

Source: Appendix VII

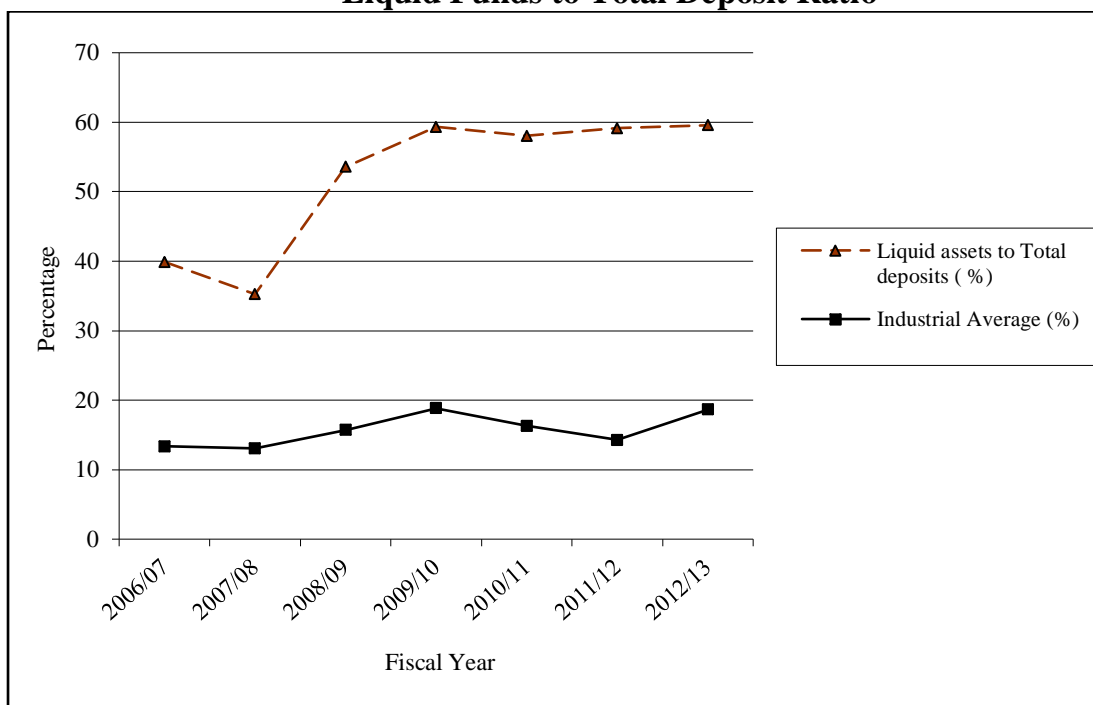
\* Banking and Financial Statistics, NRB, NO. 58, July 2012

Table 4.7 shows that the liquid funds to total deposit ratio of Nepal SBI bank Ltd during the period FY 2006/07 to 2012/13. The ratios are in fluctuating trend for the first 5 years, thereafter it continuously decreased for the next two years. The liquid

assets to deposit ratio was minimum in 2007/08 was 35.25% when the deposit was minimum Rs 13715.39 million likewise the ratio was maximum in 2012/13 with 59.56 % when the deposits were maximum with Rs 58920.46 million. The extreme levels of ratio are inversely proportional to the deposit level, in absolute terms. The ratios are in fluctuation trend. The ratios were greater than the industrial average ratio in all observed year i.e difference is positive in all period. Overall, the bank held liquid assets percentage above the industrial average.

**Figure 4.7**

**Liquid Funds to Total Deposit Ratio**



The data from Table 4.7 is plotted in Figure 4.7 exhibits the liquid fund to total deposits ratio of the bank in comparison to the industrial average ratio within the study period of last seven years. In the chart, the total liquid fund to total deposit curve of the bank is above the industrial average curve in all observed fiscal years. This fact implies that the overall liquidity position of the bank is better than industrial average ratio. However the liquidity is in increasing trend as the bank has investing on more profitable assets.

### 4.3.2 NRB Balance to Total Deposit Ratio

This ratio shows whether bank is holding the balance as required to NRB. To ensure adequate liquidity in the commercial banks, to meet the depositors demand for cash at any time, to inject the confidence in depositors regarding the safety of their deposited funds NRB has put the directives to maintain certain percent of total deposit in NRB by the commercial bank. The bank should strictly comply with the directives. Total deposit means current, savings and fixed deposit account as well as call account deposit and certificates of deposits. For the purpose, deposits held in convertible foreign currency, employees guarantee amount and margin account will not be included (NRB Directive Manual, 2004). The following table shows the NRB Balance to total deposit ratio with compared to industrial average ratio.

**Table 4.8**  
**NRB Balance to total Deposit Ratio**

Fiscal Year (as at mid July)	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/13
NRB Balance	556.68	403.81	444.14	184.28	233.09	326.96	495.71
Total Deposit less Margin & FCY Dep.	11855.10	13971.10	38413.21	47217.62	56072.85	74063.36	83282.39
NRB Balance /Total Deposit (%)	4.70	2.89	1.16	3.90	4.16	4.41	5.95
*Industrial Average (%)	7.23	6.88	7.23	9.85	7.85	7.09	12.47
Variance from Industrial Average (%)	-2.53	-3.99	-6.07	-5.94	-3.69	-2.67	-6.51

Source: Appendix VII.

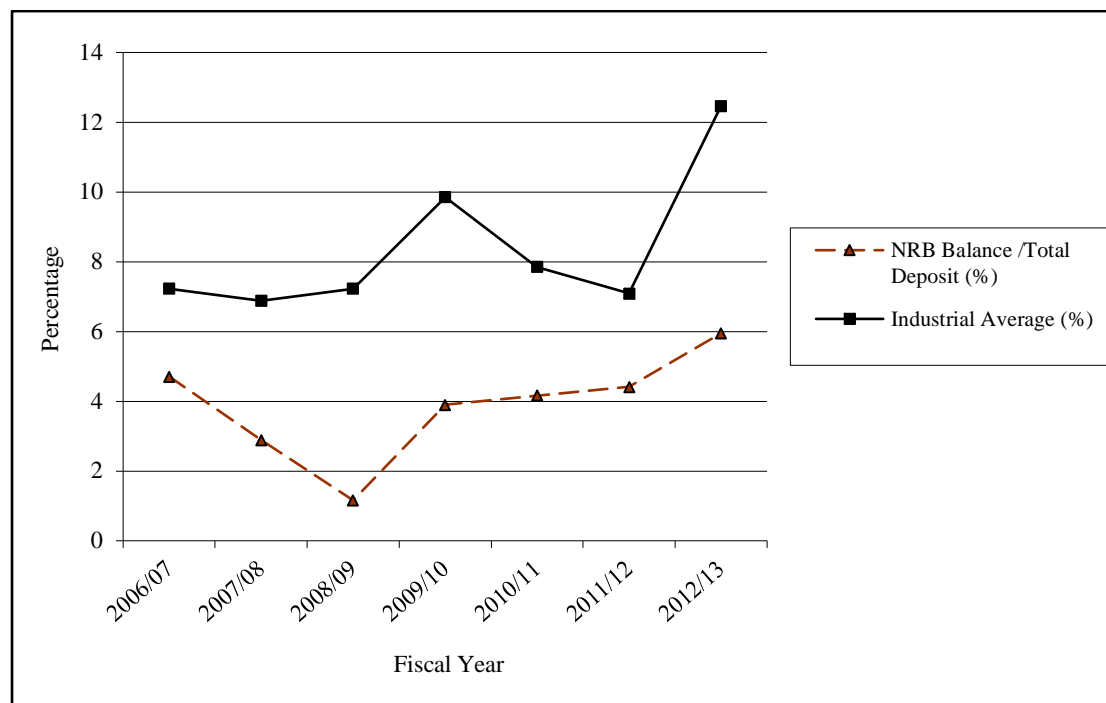
\*Banking and Financial Statistics, NRB, No 58, July 2012.

Table 4.8 shows that Nepal SBI Bank Ltd. has maintained reserve with NRB below the industry average. The above calculation is based on year-end volumes of deposit and NRB balance where as NRB calculates CRR on weekly average balances. As regard to the deposit volume, it is also fluctuating in randomly over the study period. The volume of deposit decreased in year 2006/07 and thereafter increased till the 2012/13. Likewise NRB balance is in decreasing trend over the study period. The NRB balance to total deposit ratio is in fluctuating during the observed years. The NRB balance to deposit ratio showed maximum in 2012/13 with 5.95% when the

deposit volume was maximum. The ratios were less than industrial average ratio in all observed years i.e. difference is negative. This implies that deposit of Nepal SBI Bank Ltd. is less than that of average.

**Figure 4.8**

**NRB Balance to total Deposit Ratio**



The data from Table 4.8 is plotted in Figure 4.8 shows the NRB balance to total deposit ratio compare with the industrial average ratio within the study period of last seven years. As shown in the Chart, the NRB balance to total deposit curve of Nepal SBI bank Ltd. is below the industrial average curve in all years during the study period. This fact implies that the balance with NRB of the bank is less than the average balance. The gap between the ratio of NRB balance to total deposit with the industry average shows that the bank has not maintained the balance with NRB as per the directives over the study.

### 4.3.3 Cash in Vault to Total Deposit Ratio

This ratio shows the percentage of total deposits held as cash in hand at vault. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. The ratio is computed by dividing cash in vault by total deposits. Cash in hand and foreign currencies in hand are included as cash in vault. So, sufficient and appropriate cash reserve in the vault should be maintained. Total

deposits mean current, savings and fixed deposit account as well as call account deposit and certificates of deposits. For the purpose, deposits held in convertible foreign currency, employees guarantee amount and margin account will not be included (NRB 2004).

**Table 4.9**  
**Cash at Vault to total Deposit Ratio**

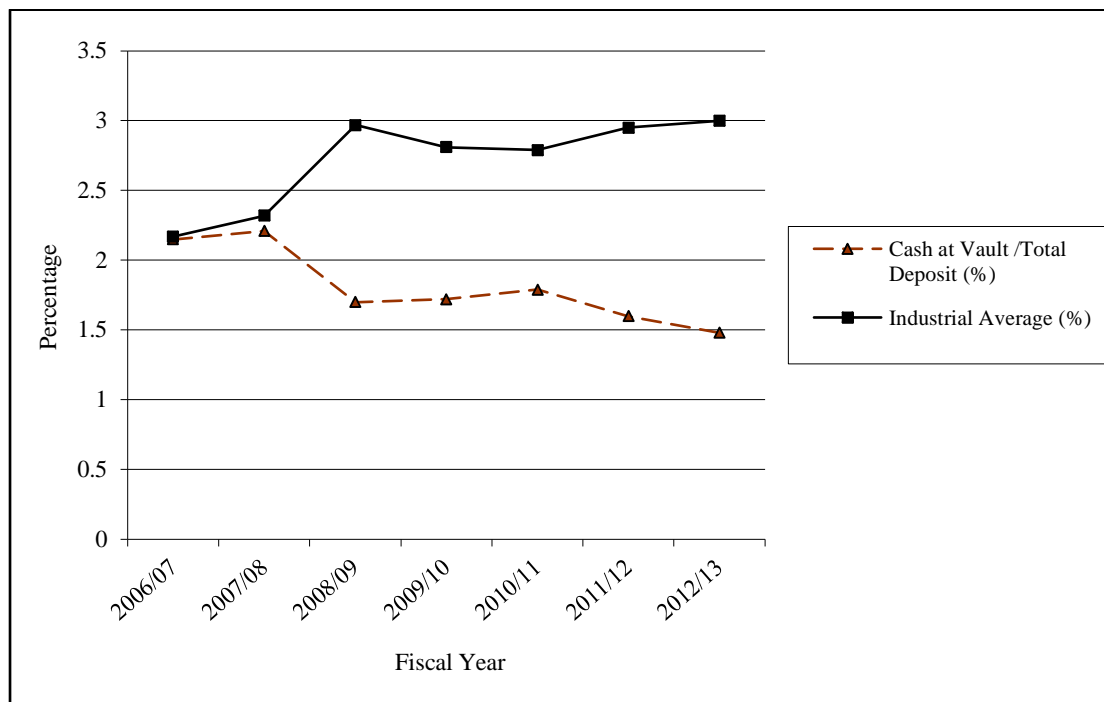
<b>Fiscal Year (as at mid July)</b>	<b>2006/2007</b>	<b>2007/2008</b>	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2011/2012</b>	<b>2012/13</b>
Cash at Vault (in millions)	287.53	308.10	652.03	815.68	100.77	118.68	123.94
Total Deposit less Margin & FCY Depreciation	11855.10	13971.02	38413.21	47217.62	56072.85	74063.36	83282.39
Cash at Vault /Total Deposit (%)	2.15	2.21	1.70	1.72	1.79	1.60	1.48
Industrial Average (%)	2.17	2.32	2.97	2.81	2.79	2.95	3.00
Variance from Industrial Average (%)	-0.02	-0.11	-1.28	-1.08	-0.99	-1.34	-1.51

Source: Appendix VI.

\*Banking and Financial Statistics, NRB, No 58, July 2012.

Table 4.9 show that volume of cash at vault is fluctuating and so is the volume of deposits. The ratio was maximum in 2007/08 with 2.21% and lowest in 2012/13 with 1.48%. The ratio is fluctuating over the study period of last seven years. Increase in cash in vault has fluctuating trend in the ratio over the study years. The ratio is less than the industry average in all observed year.

**Figure 4.9**  
**Cash at Vault to total Deposit Ratio**



The data from the Table 4.9 is plotted in Figure 4.9 exhibits the observed cash in vault ratio of the Nepal SBI Bank Ltd. compared with industrial average ratio within the study period of last seven years. In the chart, the ratio curve indicates fluctuation of ratio in alternate years. The ratio is observed below the industry average in all the review period. In two instances in 2006/07 and 2007/08 when the ratio were almost at equilibrium with the industry average, the ratios were above the standard of 2%. Overall it indicates banks capacity to keep cash position is fluctuating.

#### **4.4 Mobilization of Deposit**

Banks utilize its funds in suitable area and right sector. Banks cannot 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.

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

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

Commercial banks collect deposits from the individual and institutional depositors in form of different accounts offered. These funds collected are further extended inform of loan and advances to borrowers inform of working capital loan, fixed capital loan, import loan, export loan, hire purchase loan, mortgage loan, housing loan etc. Bank in return makes earning from interest on Loans & Advances granted. However, it should also be noted that before lending bank should consider various aspects like risk analysis, diversification, bank's credit policy. NRB rules and regulations, customer's behaviors etc.

The ratio of total loan and advances to total deposit is used as a proxy measure of the asset management quality. This ratio is calculated by dividing the total loans and advances by total deposits. This ratio measures the bank mobilizing capacity to which extent it is successful to mobilize its total deposits on loan and advances for the purpose of income generation. A high ratio indicates success of bank in mobilizing deposits in investments and vice versa. However it should be also well noted that

excessive high ratio might not be better from liquidity viewpoint and it may reflect an inefficient asset management. This can be, but necessarily due to asset management deficiencies and is likely to negatively affect profitability

**Table 4.10**  
**Loan and advances to total Deposits**

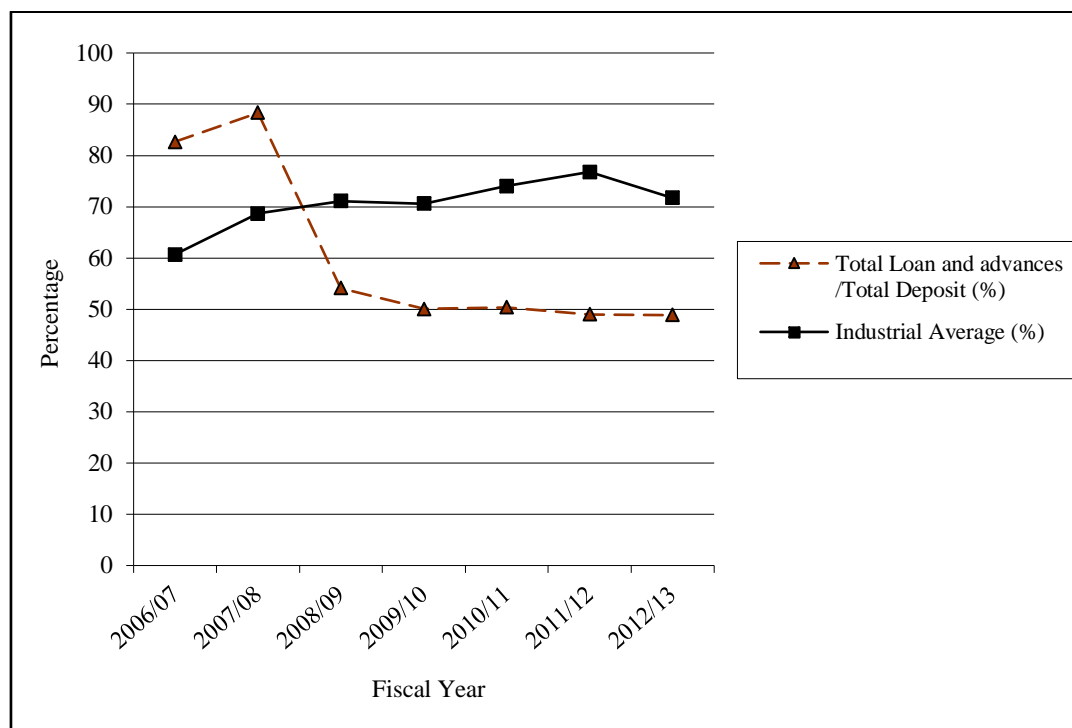
<b>Fiscal Year (as at mid July)</b>	<b>2006/2007</b>	<b>2007/2008</b>	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2011/2012</b>	<b>2012/13</b>
Total Loan and advances (in millions)	946045.00	121136.90	151317.47	174805.48	213657.71	261420.94	287881.46
Total Deposit (in millions)	114452.86	137153.94	279572.20	348964.24	424154.43	533372.64	589204.55
Total Loan and advances /Total Deposit (%)	82.65%	88.32%	54.12%	50.09%	50.37%	49.01%	48.85%
Industrial Average (%)	60.71	68.69	71.09	70.64	74.04	76.79	71.73
Variance from Industrial Average (%)	-52.44%	-19.63%	-16.96%	-20.54%	-23.66%	-27.77%	-22.87%

Source: Annual Report,

\*Banking and Financial Statistics, NRB, No 58, July 2012.

Table 4.10, shows the total loan and advances to total deposits is in fluctuating trend observed all the year over the study period. The ratio increased in 2006/07 from 82.65% to 88.32% in 2007/08 which is maximum of all review period. The ratio however decreased thereafter to 48.85% in 2012/13 which is the minimum ratio of the observed years. It can be concluded that as the ratios are unsatisfactory during the study period, Nepal SBI Bank is not mobilizing the collected deposits efficiently during the study period. Ratio is higher than the industry average in first two years study period and is less than the industry average in the later five years.

**Figure 4.10**  
**Loan and advances to total Deposits**



The data from the Table 4.10 is plotted in Figure 4.10 exhibits the observed total loan and advances to total deposits ratio of Nepal SBI Bank Ltd. with industrial average ratio within the study period of last seven years. As shown in the chart, the observed ratio is observed above the industry average in the first two years of review of review period and got less than the industry average in later five years. Overall it indicates banks capacity to maintain loan and advances with respect to increase in deposits, which is not considered as satisfactory asset management quality. Loan and advances of Nepal SBI Bank is in decreasing trend during the study period of time.

#### 4.4.2 Total Deposit to Capital Fund

Capital fund means the aggregate of core capital and supplementary capital. In case of the licensed institution belonging to class "A", The Core Capital is comprises of paid up capital, share premium, non-redeemable preference share, general reserve fund and accumulated profit and loss account. However, the amount of goodwill should be deducted for the purpose of calculation of core capital. Supplementary fund comprises of Loan Loss Provision on Pass Loan, Asset Revaluation Reserve, Hybrid Capital Instruments, Unsecured Subordinated Term Debt, Exchange Equalization Reserve,

Additional Loan Loss Provision, Investment Adjustment Reserve, and Provision for Loss on Investment. The Total Deposit to Capital Fund compare with the industry average of Commercial Bank during the mid July 2012 are given in Table 4.11

**Table 4.11**  
**Total Deposits to Capital Fund**

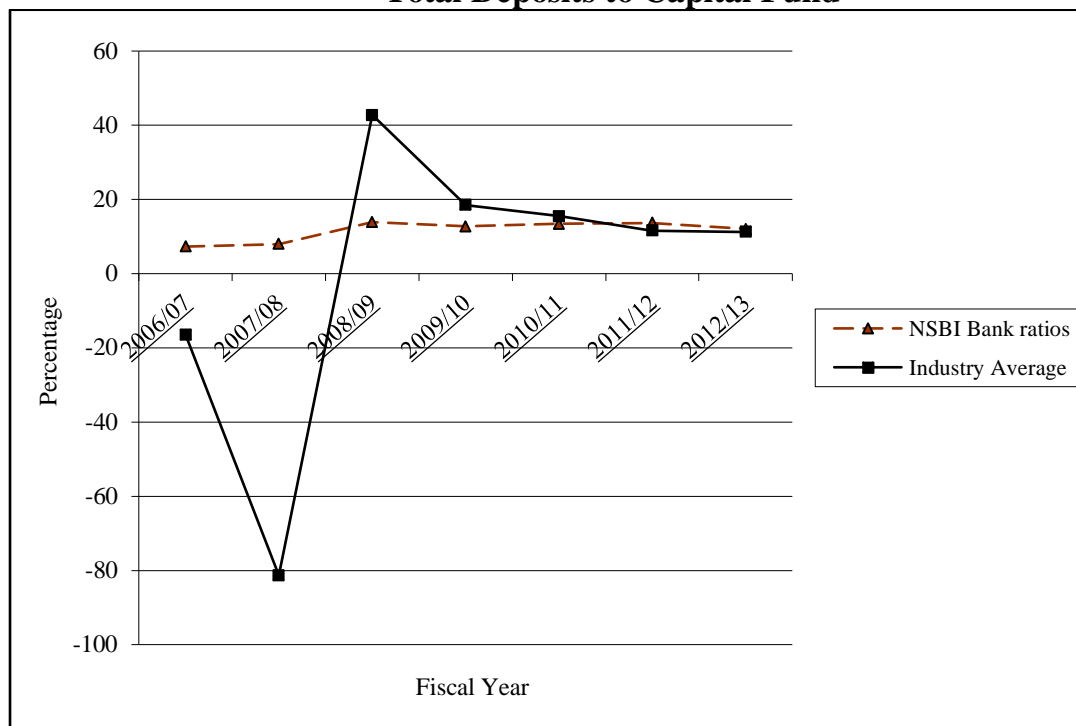
<b>Fiscal Year (as at mid July)</b>	<b>Total Deposits</b>	<b>Capital Fund</b>	<b>Ratio of Nepal SBI Bank</b>	<b>*Industry Average</b>
2006/07	114452.8	144480	7.29	(16.41)
2007/08	137153.9	172218.6	7.96	(81.33)
2008/09	279572.2	201203.7	13.89	42.78
2009/10	348964.2	273444.6	12.76	18.54
2010/11	424154.4	316339.5	13.40	15.49
2011/12	533372.6	389914.3	13.67	11.64
2012/13	589204.5	488863.7	12.05	11.25

Source: Appendix VIII

\* NRB (July 2012) Banking and Financial Statistics

Table 4.11, Shows the Total Deposits to Capital Fund is in fluctuating trend observed all the year over the study period. The ratio increased in 2008/09 is 13.89 maximum of all review period. The ratios were fluctuating during the observed period of time. The ratio with 7.92 during the F.Y 2006/07 is the minimum ratio of the observed years. It can be concluded that as the ratios are satisfactorily consistent during the study period, Nepal SBI Bank ratio of Total Deposit to Capital Fund as comparing with the industry average of Commercial Bank which are similar with each other which indicates that Nepal SBI Bank is strictly following the NRB Directives.

**Figure 4.11**  
**Total Deposits to Capital Fund**



The data from the Table 4.11 is plotted in Figure 4.11 exhibits the observed Total Deposits to Capital Fund ratio of Nepal SBI bank Ltd. with Financial ratios of Commercial Bank within the study period of last seven years. As shown in the chart, the observed ratio is observed above the Nepal SBI Bank ratio of Total Deposit to Capital Fund as Compared with Financial ratio of Commercial Bank in the last five years of review period and got less than ratio of Nepal SBI Bank two years of F.Y 2006/07, 2008/09. Nepal SBI Bank ratio of Total Deposit to Capital Fund as comparing with the financial ratio of Commercial Bank which are similar with each other which indicates that Nepal SBI Bank is strictly following the NRB Directives. Overall it indicates Nepal SBI Bank ratio of Total Deposit to Capital Fund as comparing with the financial ratio of Commercial Bank which are similar with each other which indicates that Nepal SBI Bank is strictly following the NRB Directives.

#### 4.4.3 Relationship between Total Deposits and Loan and Advances

The study has analyzed the correlation of deposits with loan and advances

##### 4.4.3.1 The Correlation between Deposits and Loan & Advances

The correlation between deposits and loan & advances measures the degrees of relationship between these two. In commercial banks, deposits are the main source of fund for lending. Similarly loan and advances are very important for mobilization of collected deposits. So how increase in deposits of bank impact in the volume of loans and advances is measured by correlation. Here deposit is considered as independent variable and loans & advances as dependent variable.

**Table 4.12**

#### **Correlation between Deposits and Loan & Advances**

<b>Correlation Coefficient (r)</b>	<b>P.E.</b>	<b>6*P.E.r</b>	<b>Remarks</b>
0.993	0.004	0.024	$r > 6 * P.E.r$

*Source:* Appendix IX.

As shown in Table 4.12 the correlation coefficient (r) between deposits and loan & advances of Nepal SBI bank Ltd. is 0.993 and Probable Error times 6 is found 0.024. As  $r > 6 * P.E.r$  and r is positive, it clarifies that there is positive and significant relationship between the deposits and loan and advances during the study period of seven years.

In other words, it can be interpreted that there is strong significant relation between deposits and loan and advances and the bank is successful in mobilizing their deposits in proper way in Loan and Advances.

## 4.5 Major Findings

The major findings of the study on deposit collection and mobilization of Nepal SBI bank Ltd. are as follows:

**4.5.1** Total deposits volume of Nepal SBI bank Ltd. remained largely in interest bearing deposits in the last seven financial years. The deposit volume of non-interest bearing deposits is the deposit of current deposits, margin deposits and other deposits which contributes less to the total deposit volume. The non-interest bearing deposits remained almost the same over the study period. The total deposits volume found in increasing trend though it was at lower rate.

**4.5.2** The total deposits of Nepal SBI Bank Ltd. i.e. the sum of Interest bearing deposit and non-interest bearing deposits. Total deposits increased from Rs 1144528 millions in FY 2006/07 to Rs 5892045 millions in FY 2012/13, the growth rate has dramatically increased at a significant rate of 103.84 percent during the FY 2008/09 with thrust in marketing as well as bank has obtained foreign currency deposits in Bank's Book and extension of branches. During the FY 2009/10, 2010/2011, 2011/12, 2012/13 the growth rate were 24.82%, 21.54%, 25.74%, 10.46% respectively. This has shown an average growth rate of 34.37 percent per annum.

**4.5.3** The annual growth of interest bearing deposit during the study period composes of saving deposit, fixed deposit and call deposit. Fixed deposit has highest average growth rate of 154.39 per annum while saving deposit has lowest average growth rate of 39.58 percent per annum and call deposit with the average growth rate of 98.51 percent per annum. Here the growth rate of interest bearing deposit is highest i.e. 110.09 % and then it is diminishing marginal rate by 28.12%, 19.11%, 29.58%, 8.89%, in FY 2009/10, 2010/11, 2011/12 and 2012/13 respectively. The amount of total deposit of interest bearing range from Rs 941686 millions to Rs 5363768 millions it shows that there is satisfactory consistency over the study period.

**4.5.4** The annual growth of non-interest bearing deposit during the study period is Rs 202841 millions in FY 2006/07 and then it is decreasing and increasing up to the FY 2012/13. Here the total deposit of non- interest bearing deposit is increasing rapidly during FY 2010/11 and 2012/13 i.e. 47.59%, 29.38% and highest increasing growth rate is 63.99% during FY 2008/09 and total deposit of non- interest bearing is declining during the FY 2007/08, 2009/10, 2011/12 i.e. -8.27%, -2.17%, -7.32% respectively. The amount of total deposit of non-interest deposit range from Rs 202841 millions to Rs 528274 million during the study period of seven years.

**4.5.5** The liquid funds to total deposit ratio of Nepal SBI bank Limited during the period FY 2006/07 to 2012/13. The ratios are in fluctuating trend for the first 5 years, thereafter it continuously decreased for the next two years. The liquid assets to deposit ratio was minimum in 2007/08 was 35.25% when the deposit was minimum Rs 13715.39 million likewise the ratio was maximum in 2012/13 with 59.56 % when the deposits were maximum with Rs 58920.46 million. The extreme levels of ratio are inversely proportional to the deposit level, in absolute terms. The ratios are in fluctuation trend. The ratios were greater than the industrial average ratio in all observed year i.e. difference is positive in all period. Overall, the bank held liquid assets percentage above the industrial average.

**4.5.6** The NRB balance to deposit ratio showed maximum in 2006/07 when the deposit volume was minimum. The NRB balance to deposit ratio was seen lowest. Nepal SBI bank Ltd. has maintained cash reserve with NRB below the industry average, which however necessarily does not conclude inadequate cash reserve ratio at NRB since the calculation is based on year-end volumes of deposit and NRB balances and NRB Calculates CRR on weekly average balances, ratio is observed low which is a limitation of the study however the ratio is decreasing and getting below the industry average.

**4.5.7** The volume of cash at vault is fluctuating alternately over the study years. The ratio is less than the industry average in all observed year. Cash in vaults have increased randomly over the study period and also the increase is at lower rate than increase in deposits. The ratio is observed below industry average in all review period. In overall it indicates banks capacity to keep cash position is volatile.

**4.5.8 Total** loan and advances to total deposits is in fluctuating trend observed all the year over the study period. Ratio is higher than the industry average in first two years study period and is less than the industry average in the later five years. It can be concluded that as the ratios are not satisfactorily consistent during the study period, Nepal SBI bank is not mobilizing efficiently the collected deposits.

**4.5.9 The** correlation coefficient ( $r$ ) between deposits and loan & advances of Nepal SBI bank Ltd. is 0.993 and Probable Error times 6 is found 0.024. As  $r > 6 P.E.r$  and  $r$  is positive, it clarifies that there is positive and significant relationship between the deposits and loan and advances during the study period of seven years. It can be concluded that as the ratios are satisfactorily consistent during the study period, Nepal SBI Bank is efficiently mobilizing the collected deposits.

**4.5.10** The total deposits to capital fund is in fluctuating trend observed all the year over the study period. The ratio increased in 2008/09 is 13.89 is maximum of all review period. The ratios were fluctuating during the observed period of time. The ratio with 7.92 during the F.Y 2006/07 is the minimum ratio of the observed years. It can be concluded that as the ratios are satisfactorily consistent during the study period.

## CHAPTER V

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with the summary of the whole along with the conclusion and recommendation. The study derives the following summary and conclusion. On the basis of the findings of this study following recommendations are to be pointed out. Therefore, this chapter is categorized into three main headings. The first deals with summary, second conclusion and the rest one is recommendations.

#### **5.1 Summary**

The study was carried out as academic requirements for master's degree of business of business studies, on the topic of "Deposit Collection & Mobilization of Nepal SBI bank ltd." The study was started with the objective to find out the fact about deposit collection pattern and its mobilization of Nepal SBI bank ltd. The analysis of deposit collection is done to obtain a better insight into a bank's deposits total aspects. Bank effectiveness in deposit collection and mobilization is judged on the basic of its liquidity position, asset management position, cost on deposits management etc. There has been continuous increase in numbers of commercial banks and almost of them are earning profits, but it has now become a challenge for these banks to attract customers for deposit and retain them for long periods. Thus, the interest was expressed to analyze the deposit collection and its mobilization of Nepal SBI Bank Ltd.

The study was conducted with the general objective to analyze and evaluate effectiveness of Nepal SBI bank ltd. in deposit collection and its mobilization. In addition with this specific objectives of the study were to analyze the trend of deposits, loan advances, investments, asset composition, asset management ratios, liquidity ratios, cost involved in deposit collection and correlation between the deposit and its dependent variables of the bank in period of year 2006/07 to year 2012/13 A.D

Various materials were reviewed in order to build up the conceptual foundation and to find out the clear destination of the research work. Meaning and functions of commercial banks, development of commercial banks in Nepal, concepts of deposits, types of deposits, importance of deposits, meaning of deposit mobilization, feature of sound lending and fund mobilization policy, directives of NRB, uses of deposits, concept of assets liabilities management, concept of investments and liquidity management techniques etc. were reviewed as conceptual review. On the other hand, review of articles and review of dissertations were included in research review section of the report.

The research covers only seven years from the year 2006/07 to year 2012/2013 A.D. It is concerned with the deposit collection and mobilization analysis of the Nepal SBI Bank Ltd. The study was designed within the framework of descriptive and analytical research design and the analysis has been made in the same way. For the study purpose, Nepal SBI bank Ltd. is drawn as a study unit with applying convenience-sampling technique out of 32 commercial banks. The required data and information were collected from secondary sources. In addition with this, primary data also are used in this research work, which was collected, by using unstructured interview with concern staffs of the bank. Financial ratios, simple mathematical and statistical tools have been implied to get the meaningful result of the collected data in this research work.

The analysis has been made the bank's ratios with compare to NRB standard, industrial average and trend of ratios. The position of deposits is in increasing trend in all the year despite the low interest rate offered and increasing numbers of commercial banks. This shows that bank have been successful in studying the market and tapping the potential deposit best possible means. Similarly bank has been able to maintain continuous increase in net interest margin. The composition of assets where deposits are well managed and deposit are mobilized in evenly manners. However assets mainly composed of loan & advances and investments. The cash in vault to total deposits ratios and NRB balance to total deposits ratio are below the industrial average and NRB directives where as the liquid funds to total deposits ratio are above

the industrial average during the study periods. This shows the liquidity position of the bank in overall is good. There is limitation in CRR ratio calculation as it is based on year end volume only rather than weekly average hence cannot be justifiable when compare with NRB norms. The assets management ratios like total loan & advances to total deposits and total investments to total deposits are favorable to the bank. Whereas the total loan & advances ratio were in fluctuating trend over the study period of year and total investments to total deposits were in increasing trend.

## **5.2 Conclusions**

Based on the findings following conclusion have been drawn as a concluding framework of the study on deposit collections and mobilization of Nepal SBI Bank Ltd.

- 5.2.1** The deposit volume of NSBI bank Ltd. during the study period of seven years from 2006/07 to 2012/13 shows that it has been increasing dramatically every year. This shows that bank is putting additional effort and is aggressively caught up in deposit collection. It can also observe that interest bearing deposits contributed major part of total deposits volume.
- 5.2.2** The Growth and Trend in total deposits i.e. the sum of Interest Bearing Deposit and Non-interest Bearing Deposits. Total deposits are in increasing trend during the study period of time. It can also observe that interest bearing deposits contributed major part of total deposit volume as compare with the non-interest bearing deposits.
- 5.2.3** The liquid funds to total deposit ratio is above the industrial average ratio. This shows that there is very high proportion of liquid funds than the proportion of investments in income generating asset and shows lack of specific policy of invest of additional idle funds to high income generating assets in the form of investment.
- 5.2.4** The NRB balance to total deposit ratio is below industrial average during the study period. This shows that the bank has not maintained sufficient amount of balance that must held in NRB.

- 5.2.5** The cash in vault to total deposit ratio is below the industrial average ratio and NRB standard during the study period. This shows that ignoring the percentage of most liquid fund with the bank to make immediate payment to the depositors. It also indicates that the bank is running with inadequate liquidity to meet its short-term obligation.
- 5.2.6** The total loan and advances to total deposits is in fluctuating trend observed all the year over the study period. It can be concluded that as the ratios are not satisfactorily consistent during the study period, Nepal SBI bank is not mobilizing efficiently the collected deposits. The total investments to total deposits have been in increasing trend during the review period i.e. riskier sectors yielding higher rate of return.

### **5.3 Recommendations**

The following recommendations are made based on the conclusions as regard to deposits aspects of Nepal SBI bank Ltd.

- 5.3.1** The total deposit volume composed of interest bearing deposits and non-interest bearing deposit proportion is in increasing trend. This means the bank has been able to lure the customers of competitive market for deposits. Even though the main function 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 deposit schemes and facilities like cumulative deposit schemes, prize bonds schemes and facilities, like recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.
- 5.3.2** Bank has been mobilizing major portion of deposits in loan and advances compared to investments as it yield higher return contributing to increase in operating revenues being involvement of high risk in loan and advances. As bank is diverting major deposits in loan and advances during the study period, there is high probability of loan default in future. So bank is strongly recommended to give more importance to invest more funds in government securities such as treasury bills, development bonds, saving certificates

instead of keeping them idle with this proverb “something is better than nothing”.

- 5.3.3** The asset management ratios i.e. loan and advances to deposits are in fluctuating and investments to deposit are increasing. Commercial banks are strongly recommended to follow the liberal lending policy more percentage of deposits can be invested to different profitable sector and to maintain equilibrium in the portfolio of loans and investments and make continuous effort to explore new competitive and high yield opportunities to maximize profit.
- 5.3.4** The total loan and advances to total deposits is in fluctuating trend observed all the year over the study period. It can be concluded that as the ratios are not satisfactorily consistent during the study period, Nepal SBI Bank is not mobilizing efficiently the collected deposits. So bank are recommended for the proper mobilization of deposits, banks must be prepared to take more risk on their lending and investment to encourage the borrowing by the units of the economy. In other words, it’s time for them to divert their traditional collateral taking process into more realistic and potential aspects. They must provide loan for a project on the basis of its potentiality instead of sound and safe collateral. In addition, it’s also suggested that they should lower their lending rate too. Private sectors commercial banks are adopting this policy in some extent.
- 5.3.5** As the liquidity position of the bank is found to be high especially in liquid funds, the bank is recommend to look upon new area of lending and investment that helps in minimizing the idle funds, otherwise it may impact the profitability negatively.

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### **Related Research**

Annual Report of Nepal SBI Bank Limited

Banking and Financial Statistics No. 58

Banking Policies and Guidelines

<http://www.google.com>

<http://www.nrb.org.com>

## APPENDIX I

### Class “A” Commercial Banks

S.No.	Name	Operation Date (A.D.)	Head Office
1	Nepal Bank Ltd.	19371/01/15	Dharmapath, Kathmandu
2	RastriyaBanijya Bank Ltd.	1966/01/23	Singhadurbarplaza, Kathmandu
3	Nabil Bank Ltd.	1984/07/12	Kantipath, Kathmandu
4	Nepal Investment Bank Ltd	1986/03/09	Durbarmarg, Kathmandu
5	Standard Chartered Bank Nepal Ltd.	1987/02/28	Nayabaneshwor, Kathmandu
6	Himalayan Bank Ltd.	1993/01/18	Thamel, Kathmandu
7	Nepal SBI Bank Ltd.	1993/07/07	Hattissar, Kathmandu
8	Nepal Bangladesh Bank Ltd.	1994/06/06	Nayabaneshwor, Kathmandu
9	Everest Bank Ltd.	1994/10/18	Lazimpat, Kathmandu
10	Bank of Kathmandu Ltd.	1995/03/12	Kamaladi, Kathmandu
11	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi
12	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitawan
13	NIC Asia Bank Ltd.	1998/07/21	Biratnagar, Morang
14	Machhapchhre Bank Ltd.	2000/10/03	Prithivichowk, Pokhara, Kaski
15	Kumari Bank Ltd.	2001/04/03	Durbarmarg, Kathmandu
16	Laxmi Bank Ltd.	2002/04/03	Adarshanagar, Birgunj, Parsa
17	Siddhartha Bank Ltd.	2002/12/24	Kamaladi, Kathmandu
18	Agricultural Development Bank Ltd.	1968/01/21	Ramshahpath, Kathmandu
19	Global IME Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/04/20	Kamaladi, Kathmandu
21	Prime Commercial Bank Ltd.	2007/09/24	New Road, Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Gairidhara, Kathmandu
23	Grand Bank Nepal Ltd.	2008/05/25	Kamaladi, Kathmandu
24	NMB Bank Ltd.	2008/06/02	Babarmahal, Kathmandu
25	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu
26	Janata Bank Nepal Ltd.	2010/04/05	Nayabaneshwor, Kathmandu
27	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu
28	Commerz& Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu
29	Civil Bank Ltd.	2010/11/26	Kamaladi, Kathmandu
30	Century Commercial Bank Ltd.	2011/03/10	Putalisadak, Kathmandu
31	Sanima Bank Ltd.	2012/02/15	Nagpokari, Kathmandu

Source: Nepal Rastra Bank ([www.nrb.org.np](http://www.nrb.org.np))

**APPENDIX II**  
**NEPAL SBI Bank Limited**  
**Comparative Balance Sheet**

<b>Fiscal Year</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
<b>CAPITAL &amp; LIABILITIES</b>							
Share Capital	647798400	874527840	1,224,338,976	1,861,324,239	2,102,966,165	2,355,738,504	2,650,205,804
Reserves and Fund	515492451	540116972	488,268,219	589,229,831	776,326,985	841,720,359	1,148,751,613
Debenture and Bonds	200000000	200000000	200000000	200,000,000	200,000,000	600,000,000	800,000,000
Borrowings	815365219	1627480190	-	-	-	-	-
Deposits	11445286030	13715394960	27,957,220,794	34,896,424,201	42,415,443,294	53,337,264,193	58,920,455,656
Bills Payable	48855749	75115471	62,947,325	72,368,229	80,685,337	78,616,237	165,354,686
Proposed and Dividend payable	91024235	12228852	18,411,112	83,080,145	93,465,163	104,699,488	176,680,388
Income Tax Liabilities	-	-	-	-	-	3,468,901	-
Other Liabilities	137378475	142581889	215,253,123	345,252,820	419,347,031	738,200,038	934,704,675
<b>Total Capital and Liabilities</b>	<b>13901200559</b>	<b>17187446174</b>	<b>30,166,439,549</b>	<b>38,047,679,465</b>	<b>46,088,233,975</b>	<b>58,059,707,720</b>	<b>64,796,152,822</b>
<b>ASSETS</b>							
Cash Balance	287530644	308101599	652,027,266	815,679,624	1,007,688,499	1,186,755,022	1,239,453,119
Balance with NRB	556678464	403810203	444,138,596	1,842,802,239	2,330,927,217	3,269,609,702	4,957,064,493
Balance with Banks/ Financial Institution	278481119	631048524	80,273,976	782,779,614	1,539,210,142	1,052,017,772	1,516,885,723
Money at Call and Short Notice	350000000	304012877				178,250,000	138,925,434
Investment	2659452919	3088886918	13,286,181,660	16,305,632,815	18,911,021,520	24,463,451,958	25,906,119,814
Loan, Advances and Bills Purchase	9460450701	12113698428	15,131,747,944	17,480,548,194	21,365,771,129	26,142,094,172	28,788,146,625
Fixed Assets	97218804	120222259	253,580,695	418,244,760	417,002,530	715,920,555	661,589,203
Non Banking Assets	3847024	-	-	-	-	-	-
Other Assets	207540884	217665366	318,489,412	401,992,219	516,612,938	1,051,608,539	1,587,968,411
<b>Total Assets</b>	<b>13901200559</b>	<b>17187446174</b>	<b>30,166,439,549</b>	<b>38,047,679,465</b>	<b>46,088,233,975</b>	<b>58,059,707,720</b>	<b>64,796,152,822</b>

**APPENDIX III**  
**Nepal SBI Bank Limited**  
**Composition of Deposits**

<b>Fiscal Year</b>	<b>2006/2007</b>	<b>2007/2008</b>	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2011/2012</b>	<b>2012/13</b>
<b>Non- Interest Bearing Deposit</b>	<b>2028415874</b>	<b>1860539619</b>	<b>3051257539</b>	<b>2984965350</b>	<b>4405574469</b>	<b>4083033672</b>	<b>5,282,754,082</b>
<b>A. Current Deposits</b>	<b>1930432984</b>	<b>1738101358</b>	<b>2864733204</b>	<b>2861877958</b>	<b>4259415723</b>	<b>3777858754</b>	<b>5,037,126,566</b>
1. Local Currency	1884302643	1694801132	2671855699	2520409399	4156210911	3516188320	3,973,522,687
2. Foreign Currency	46130341	43300226	192877505	341468559	103204811	261670434	1,063,603,879
<b>B. Margin Deposits</b>	<b>9798289</b>	<b>122438261</b>	<b>186524335</b>	<b>123087392</b>	<b>146158747</b>	<b>305174918</b>	<b>245,627,516</b>
1. Employees Guarantee	-	122438261	-	-	-	-	-
2. Guarantee Margin	18791046	26612931	35780547	29505215	47464444	59920310	79,058,175
3. Margin on Letter of Credit	79191844	95825330	150743788	93582177	98694303	245254608	166,569,341
<b>Interest Bearing Deposits</b>	<b>9416870156</b>	<b>11854855341</b>	<b>24905963255</b>	<b>31911458851</b>	<b>38009868825</b>	<b>49254230521</b>	<b>53,637,701,574</b>
<b>A. Saving Deposits</b>	<b>3274690124</b>	<b>4171175548</b>	<b>5822293866</b>	<b>7348969807</b>	<b>8079243659</b>	<b>10344583175</b>	<b>12,887,139,796</b>
1. Local Currency	3175620248	4103714143	5751589090	7259969075	7961340989	10278503378	12,814,666,116
2. Foreign Currency	99069876	67461405	70704776	89000732	117902670	66079797	72,473,680
<b>B. Fixed Deposits</b>	<b>5517466903</b>	<b>6854884456</b>	<b>17438404928</b>	<b>22148948329</b>	<b>28013550392</b>	<b>36208650059</b>	<b>38,179,006,333</b>
1. Local Currency	5354948768	6834816456	7472986587	10408484131	14780482661	16251496099	15,215,385,792
2. Foreign Currency	162518134	20068000	9965418341	11740464198	13233067731	19957153960	22,963,620,541
<b>C. Call Deposits</b>	<b>624713129</b>	<b>828795337</b>	<b>1645264461</b>	<b>2413540715</b>	<b>1917074774</b>	<b>2700997287</b>	<b>2,571,555,445</b>
1. Local Currency	620600337	826435946	1604798442	2386366289	1860003849	2564975946	2,554,949,935
2. Foreign Currency	4112792	2359391	40466019	27174426	57070925	136021341	16,605,510
<b>Total Deposit</b>	<b>11445286030</b>	<b>13715394960</b>	<b>27957220794</b>	<b>34896424201</b>	<b>42415443294</b>	<b>53337264193</b>	<b>58,920,455,656</b>

## APPENDIX-IV

Least square trend line of Total Deposit Collection

Let the straight line trend be

$$y = a + bx \dots\dots\dots (i)$$

### FITTING OF TREND LINE BY LEAST SQUARE METHOD

Fiscal Year	Year (x)	Total Deposit (y)	$x = x - 4$	$x^2$	$xy$
2006/07	1	1144528	-3	9	-3433584
2007/08	2	1371538	-2	4	-2743076
2008/09	3	2795721	-1	1	-2795721
2009/10	4	3489641	0	0	0
2010/11	5	4241543	1	1	4241543
2011/12	6	5333726	2	4	21334904
2012/13	7	5892045	3	9	53028405
		$\Sigma y = 24268742$	$\Sigma x = 0$	$\Sigma x^2 = 28$	$\Sigma xy = 69632471$

Since  $\Sigma X = 0$ ,

$$\text{So, } a = \frac{\Sigma y}{n} = \frac{24268742}{7} = 3466963$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{69632471}{28} = 2486873$$

Substituting the value of a and b in (i), the equation of the trend line is

$$y = 3466963 + 2486873x$$

## APPENDIX-V

Least square trend line of Interest Bearing Deposit Collection

Let the straight line trend be

$$y = a + b x \dots\dots\dots (i)$$

### FITTING OF TREND LINE BY LEAST SQUARE METHOD

Fiscal Year	Year (x)	Interest bearing deposit(y)	$x = x - 4$	$x^2$	$xy$
2006/07	1	941686	-3	9	-2825058
2007/08	2	1185484	-2	4	-2370968
2008/09	3	2490595	-1	1	-2490595
2009/10	4	3191144	0	0	0
2010/11	5	3800986	1	1	3800986
2011/12	6	4925422	2	4	9850844
2012/13	7	5363768	3	9	16091304
		$\sum y = 21899085$	$\sum x = 0$	$\sum x^2 = 28$	$\sum xy = 22056513$

Since  $\sum X = 0$ ,

$$\text{So, } a = \frac{\sum y}{n} = \frac{21899085}{7} = 3128440$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{22056513}{28} = 787732$$

Substituting the value of a and b in (i), the equation of the trend line is

$$y = 3128440 + 787732x$$

## APPENDIX –VI

Least square trend line of Non- interest bearing deposit collection

Let the straight line trend be

$$y = a + bx \dots\dots\dots (i)$$

### FITTING OF TREND LINE BY LEAST SQUARE METHOD

Fiscal Year	Year (x)	Non-Interest bearing deposit (y)	$x = x - 4$	$x^2$	$xy$
2006/07	1	202841	-3	9	-608523
2007/08	2	186053	-2	4	-372106
2008/09	3	305125	-1	1	-305125
2009/10	4	298495	0	0	0
2010/11	5	440556	1	1	440556
2011/12	6	408302	2	4	816604
2012/13	7	528274	3	9	1584822
		$\Sigma y = 2369646$	$\Sigma x = 0$	$\Sigma x^2 = 28$	$\Sigma xy = 1556228$

Since  $\Sigma X = 0$ ,

$$\text{So, } a = \frac{\Sigma y}{n} = \frac{2369646}{7} = 338520$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{1556228}{28} = 55579$$

Substituting the value of a and b in (i), the equation of the trend line is

$$y = 338520 + 55579x$$

## APPENDIX VII

### Nepal SBI Bank Limited

#### Calculation of Liquidity Ratios

<b>Liquid Assets to Total Deposits</b>	<b>FY 2006/07</b>	<b>FY 2007/08</b>	<b>FY 2008/09</b>	<b>FY 2009/10</b>	<b>FY 2010/11</b>	<b>FY 2011/12</b>	<b>FY 2012/13</b>
Cash	287,530,644	308,101,599	652,027,266	815,679,624	1,007,688,499	1,186,755,022	1,239,453,119
NRB Balance	556,678,464	403,810,203	444,138,596	1,842,802,239	2,330,927,217	3,269,609,702	4,957,064,493
Bank Balance	278,481,119	631,048,524	80,273,976	782,779,614	1,539,210,142	1,052,017,772	1,516,885,723
Money at call and short notice	350,000,000	304,012,877				178,250,000	138,925,434
Investment	2,659,452,919	3,088,886,918	13,286,181,660	16,305,632,815	18,911,021,520	24,463,451,958	25,906,119,814
Secured Loan against own FDR	178,668,079	89,981,791	348064823	879563504	722,841,640	1,151,666,540	1,009,416,032
Secured loan against Govt. Sec.	252,904,826	9,238,986	159,133,341	78385762	91725854	243,788,723	326,531,998
Total liquid Assets	4,563,716,051	4,835,080,898	14,969,819,662	20,704,843,558	24,603,414,872	31,545,539,717	35,094,396,613
Total Deposits	11445286030	13715394960	27957220794	34896424201	42415443294	53337264193	58,920,455,656
Liquid assets to Total deposits (%)	39.87	35.25	53.54	59.33	58.00	59.14	59.562
Industrial Average (%)	13.34	13.06	15.7	18.81	16.29	14.26	18.64
Variance from Industrial Average (%)	26.53	22.19	37.85	40.52	41.72	44.88	40.92

<b>NRB to total Deposit Ratio</b>	<b>FY 2006/07</b>	<b>FY 2007/08</b>	<b>FY 2008/2009</b>	<b>FY 2009/2010</b>	<b>FY 2010/2011</b>	<b>FY 2011/2012</b>	<b>FY 2012/13</b>
NRB Balance	556,678,464	403,810,203	444,138,596	1,842,802,239	2,330,927,217	3,269,609,702	4,957,064,493
Total Deposit less Margin & FCY Depreciation	11855100063	13971022243	38413211770	47217619508	56072848178	74063364643	83282386782
NRB Balance /Total Deposit (%)	4.69	2.89	1.15	3.90	4.15	4.41	5.95
Industrial Average (%)	7.23	6.88	7.23	9.85	7.85	7.09	12.47
Variance from Industrial Average (%)	-2.53	-3.98	-6.07	-5.94	-3.69	-2.67	-6.51
Margin Deposit	97,982,890	122,438,261	186524335	123087392	146,158,747	305,174,918	245,627,516
FCY Deposits	40984033	255627283	10455990976	12321195307	13657404884	20726100450	24361931126

<b>Cash in Vault to total Deposit Ratio</b>	<b>FY 2006/07</b>	<b>FY 2007/08</b>	<b>FY2008/2009</b>	<b>FY 2009/2010</b>	<b>FY 2010/2011</b>	<b>FY 2011/2012</b>	<b>FY 2012/13</b>
Cash in Vault (in millions)	287,530,644	308,101,599	652,027,266	815,679,624	1,007,688,499	1,186,755,022	1,239,453,119
Total Deposit less Margin & FCY Depreciation	11855100063	13971022243	38413211770	47217619508	56072848178	74063364643	83282386782
Cash at Vault /Total Deposit (%)	2.42	2.20	1.69	1.72	1.79	1.60	1.48
Industrial Average (%)	2.17	2.32	2.97	2.81	2.79	2.95	3.00
Variance from Industrial Average (%)	0.25	-0.11	-1.27	-1.08	-0.99	-1.34	-1.51
Margin Deposit	97,982,890	122,438,261	186524335	123087392	146,158,747	305,174,918	245,627,516
FCY Deposits	40984033	255627283	10455990976	12321195307	13657404884	20726100450	24361931126

**APPENDIX VIII**  
**Nepal SBI Bank Limited**  
**Capital Fund**

<b>Fiscal Year</b>	<b>2006/2007</b>	<b>2007/2008</b>	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2011/2012</b>	<b>2012/13</b>
<b>A. Core Capital</b>	<b>1145478649</b>	<b>1394064015</b>	<b>1692371238</b>	<b>243002123400</b>	<b>25267759679</b>	<b>3185117428</b>	<b>3785482444</b>
1. Paid Up Capital	647798400	874527840	874527840	1653623877	1196119882	2093989769	5738504235
2. Share Premium	-	-	-	-	-	-	-
3. Non- Redeemable Preference Shares	-	-	-	-	-	-	-
4. General Reserve Fund	191691010	241245162	349811136	207700362	233662907	261748735	294467300
5. Cumulative Profit/ Loss	665892	1528836	3848810	4249307	2851532	2202807	926096611
6. Capital Redemption Reserve	-	-	304519861	382868285	475781285	571802385	5055793
7. Capital Adjustment Reserve	60000000	230000000	65000000	50000000	30000000	5000000	35000000
8. Other Free Reserve (Debtenture Red. Reserve & Proposed Bonus Share)	255300869	57142858	85714287	114285716	142857145	188204830	74639270
9. Deferred Tax Reserve	-	-	-	-	39683853	62916903	95232966
Less: Goodwill	-	-	-	-	-	-	-
Investment in Excess of Prescribed Limit	-	-	-	-	-	-	-
Fictitious Assets	1034522	689681	18985145	26984687	-	-	-
Investment in securities of companies with financial interest	-	-	-34484080	-	-	-	-
Investments in the Shares underwritten of Himalayan Distillery & Alliance Insurance	8943000	9691000	-9691000	-9691000	-9691000	-748000	748000
<b>B. Supplementary Capital</b>	<b>299321607</b>	<b>328122783</b>	<b>319666657</b>	<b>304425373</b>	<b>329286377</b>	<b>714025935</b>	<b>1103155547</b>
1. Loan loss Provision on Pass loan	91486927	117922667	149466541	173583537	213793432	262432500	290428574
2. Assets Revaluation Reserve	-	-	-	-	-	-	-
3. Hybrid Capital Instruments	-	-	-	-	-	-	-
4. Unsecured Subordinated Term Debt	200000000	200000000	160000000	120000000	80000000	440000000	800000000
5. Exchange Equalization Reserve	7834680	10200116	10200116	10200116	10279125	11078075	12211613
6. Additional Loan Loss Provision	-	-	-	-	-	-	-
7. Investment Adjustment Reserve	-	-	-	641720	25213820	515360	515360
8. Provision for Loss on Investment	-	-	-	-	-	-	-
<b>C. Total Capital Fund (A+B)</b>	<b>1444800256</b>	<b>1722186798</b>	<b>2012037895</b>	<b>2734446607</b>	<b>3163395582</b>	<b>3899143363</b>	<b>4888637991</b>

## APPENDIX IX

### Co-relation between Total Deposit and Total Loan & Advances

(Amount in billion)

Fiscal Year	Deposit (X)	Loan and advance (Y)	$(X - \bar{X})$	$(X - \bar{X})^2$	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$	$(\frac{X - \bar{X}}{Y - \bar{Y}})$
2006/2007	11.44	9.46	-23.22	539.16	-9.17	84.08	212.92
2007/2008	13.71	12.11	-20.95	438.90	-6.527	42.51	136.59
2008/2009	27.95	15.13	-6.71	45.02	-3.50	12.25	23.48
2009/2010	34.89	17.48	0.22	0.04	-1.15	1.32	0.25
2010/2011	42.41	21.36	7.74	59.90	2.72	7.39	21.05
2011/2012	53.33	26.14	18.66	348.19	7.50	56.25	139.95
2012/2013	58.92	28.78	24.25	588.06	10.14	102.8	245.89
	$\sum X = 242.65$	$\sum Y = 130.46$		2019.30		306.63	780.15

$$1. \text{ Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{242.65}{7} = 34.66, \bar{y} = \frac{\sum y}{n} = \frac{130.46}{7} = 18.63$$

$$2. \text{ Variance } (\sigma^2 x) = \frac{1}{n} \sum_{t=1}^n (x - \bar{x})^2 = \frac{1}{7} (2019.3) = 288.47$$

$$\sigma^2 y = \sum_{t=1}^n (y - \bar{y})^2 = \frac{1}{7} (306.63) = 43.80$$

$$3. \text{ S.D. } \sigma x = \sqrt{\sigma^2 x} = \sqrt{288.47} = 16.98 \quad \sigma y = \sqrt{\sigma^2 y} = \sqrt{43.80} = 6.61$$

$$4. \text{ Covariance } = \frac{1}{n} \sum_{t=1}^n (x - \bar{x})(y - \bar{y}) = \frac{1}{7} (780.15) = 111.45$$

$$5. \text{ Correlation } (r) = \frac{\text{Cov } xy}{\sigma x \sigma y} = \frac{111.450}{(16.98)(6.61)} = 0.993$$

Calculation of PE

$$\text{P.E} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.993)^2}{\sqrt{7}} = 0.004$$

$$6 \text{ PE} = 6 \times 0.004 = 0.024$$

$r > 6 \text{ PE}$

## APPENDIX X

### Some Ratios of Commercial Banks

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
<b><u>A. GDP, Deposits, Credit &amp; Investment</u></b>							
1. Deposit /GDP	44.53	46.91	51.91	58.71	53.88	51.09	55.7
2. Credit /GDP	27.03	32.22	36.9	41.47	39.89	39.24	39.96
3. Investment/ GDP	12.56	13	13.27	13.63	11.45	3.49	11.63
4. Credit & Investment/ GDP	39.6	45.22	50.18	55.1	51.34	42.72	51.59
5. Time Deposit/ GDP	34.89	36.41	38.53	14.71	17.08	18.84	19.18
6. Current Deposit/ GDP	5.72	6.26	6.83	7.46	6.88	5.87	5.99
7. Credit/ Deposit	60.71	68.69	71.09	70.64	74.04	76.79	71.73
8. Investment / Deposit	28.21	27.71	25.57	23.22	21.25	6.82	20.88
9. Credit & Investment/ Deposit	88.93	96.4	97.66	93.86	95.29	83.61	92.61
10. Fixed Deposit/ Total Deposit	26.29	25.84	25.06	25.6	31.71	36.88	34.43
11. Current Deposit/ Total Deposit	12.84	13.34	13.16	12.71	12.78	14.96	10.75
12. Credit to Govt. Entp. /Credit	2.82	2.36	0.66	0.66	1.34	1.47	1.13
13. Credit to Pvt. Sector / Total Deposit	97.18	95.53	95.16	99.34	98.66	98.53	98.87
<b><u>B. LIQUIDITY</u></b>							
1. NRB Balance / Deposit	7.23	6.88	7.23	9.85	7.85	7.09	12.74
2. Vault / Deposit	2.17	2.32	2.97	2.81	2.79	2.95	3.00
3. Liquid Fund / Deposit	13.34	13.06	15.7	18.81	16.29	14.26	18.64
<b><u>C. CAPITAL ADEQUACY</u></b>							
1. Capital Fund /Total Deposit	-6.09	-1.23	2.34	5.39	7.39	8.59	11.15
2. Capital Fund / Total Credit	-10.03	-1.79	3.29	7.64	9.98	11.79	12.39
3. Capital Fund / Total Assets	-4.14	0.85	1.76	3.74	5.92	6.72	7.23
4. Capital Fund / Risk weighted Assets	-5.30	-1.71	4.04	7.22	6.58	10.59	11.5

Source: Nepal Rastra Bank (www.nrb.org.np)