

**DEPOSIT COLLECTION AND INVESTMENT OF
RASTRIYA BANIJYA BANK**

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RECOMMENDATION

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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 the degree of

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Date:

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LIST OF ABBREVIATION/ACRONYMS

RBB	Rastriya Banijya Bank
NRB	Nepal Rastra Bank
S.D.	Standard Deviation
C.V.	Coefficient of Variation
F.Y.	Fiscal Year.
GDP	Gross Domestic Product
NEPSE.	Nepal Stock Exchange
NGBL	Nepal Grindlays Bank Limited
HBL	Himalayan Bank Limited
ADB	Agriculture Development Bank
NPC	National Public Commission
SEBON	Security Board of Nepal
PU	Pokhara University
OD	Overdraft
TR	Trust Receipt
WC	Working Capital
ROI	Return on Investment
ROD	Return on Deposit
Ltd.	Limited
r	Coefficient of Correlation
r^2	Coefficient of Determination
P.E.	Probable Error.
NG	Non Government

CHAPTER I

INTRODUCTION

1.1 Background of the study

Nepal is one of the least developed countries in the world. A world development bank has stated that 25.16 percent of Nepalese people are living below poverty line. In Nepal, the main source of income is agriculture which makes a contribution of 32.8 percent to GDP of the country (Survey report, World Development Bank). Similarly, higher illiteracy and unemployment rate are the main causes due to which economic development of country is almost impossible. So, current state of Nepalese economy is characterized by unutilized natural resources, miserable agriculture, deficit trade, mass poverty, illiteracy and so on.

The economic structure of Nepal is mixed economy. In such a system, the private sector has to play a crucial role in market oriented and competitive economic activities in order to increase production through efficient utilization of available resources. To develop Nepalese economy, there is a need of financial institutions in the nation. Financial institutions occupy the crux role in development of nation as it mobilizes the funds scattered in the nation to productive sectors like agriculture, industry, trade and commerce. They are not simply the trader who accepts deposits, grant loans, discount bills and remit money and credit but in fact they are the backbone of economy to achieve faster economic development by mobilizing the available resources and canalizing the capital to productive sectors of economy.

Nowadays the role and importance of banking and financial institutions is increasing day by day. All banks and financial institution play significant role in raising the economy of nation by pooling the saving of community and arranging them for productive use mainly related with granting short and long term loans necessary for trade and commerce. The existence and development of good banking system in any country is a reflection of its economic development. Thus, various banks and finance companies have been established in government and private sector for economic

development of nation. Even with the rapid development of various financial institutions, the country is not getting desired return due to poor capital formation and insufficient resources, political instability and imperfect market conditions.

Banks are the major institutions in financing. It is the creator and operator of the money. It collects scattered money from public and helps to mobilize it in different sectors. It helps to develop saving habit of people which in turn help to make other people to invest for their business. It also helps to develop international business by initiating as a mediator in export and import. Nowadays, it is one of the most important sources of short term working capital for business and has become increasingly active in recent years in making long term business loans for new plant and equipment. In this way, it helps to strengthen the national economy by removing deficiency of capital and by stimulating saving and investment.

Commercial banks are the heart of financial system which collects idle and scattered money from general public, government, business units and other organizations. They also invest in different enterprises of national economy that consequently helps in reducing poverty, increasing life style of public, increasing employment and reducing disparity in the distribution of income, health and opportunities between rich and poor section of society and country as the whole. They also help to supply financial needs of modern business. Especially, they provide the working capital required to various industries and sectors for their daily operation. They have played a vital role in giving the direction to economic growth over the time by financing the requirement of industries and trade in the country. Apart from that, it also induce the savers to hold their saving in the form of bank deposits by bringing scattered resources into organized banking sector and by allocating them into various sectors of economic activities. In this way, they help in country's capital formation.

So, without collecting deposits and investing funds in various sectors, the operation of any bank and financial institution is impossible. For the long run and survival, deposit is very important for every single bank. Similarly, without making proper utilization of fund, there is no meaning of collecting fund from people. So, it is obvious that bank perform mainly two functions i.e. accepting deposit and lending funds to various business institutions. Like that, it also contributes heavily in the development of trade, commerce and industry. Nowadays, proper management of deposit and investment is

needed for smooth operation of any banking and financial institution. Also, good plans and policies ensure minimum risk and maximum collection of deposit and proper utilization of fund in various productive sectors.

1.1.1 Profile of Rastriya Banijya Bank limited (RBB)

RBB is fully government owned and the largest commercial bank in Nepal. It was established on January 23, 1966 A.D (Magh 10, 2022 BS) and it is operating under bank and financial institute act 2063. It has most extensive branching network with 135 branches operating in different parts of Nepal. It provides various services to a wide range of customer that include bank, finance companies, industrial trading houses, airlines, hotels and many other sectors (Annual report, RBB).

Through its branch network, it has been contributing to Nepal's economic development by providing banking services throughout the country. RBB has many correspondent arrangements with major international bank all over the world that facilitate trade finance, personal fund transfer and inter bank funds transfer via swift. Also, to promote remittance business, RBB works with western union and international money express, two leading person to person funds transfer networks. The bank is also in front towards fulfilling corporate social responsibility. The bank has been working as a development partner by acting as a fund administrator of poverty alleviate fund (PAF). Similarly, the bank has been working as a chief administrator in the educational assistance project (run with assistance of World Bank) aimed at assisting poor and diligent students learning at higher secondary and bachelor levels.

1.1.2 Objectives and mission of RBB

The main objective of RBB is to provide banking services throughout the nation and to contribute in socio economic development of the nation. Its main activities include accepting deposits, investing in government securities, lending to productive sector, dealing with foreign currency, processing domestic and foreign remittances, merchant banking and corresponding banking services.

The bank has more than 12 million depositors in Nepal. The depositors are individuals, institutions, private organizations, business houses, non profit

organizations, social organizations, industries, finance companies, co-operatives etc. The bank has more than 30,00,000 clients who are using the resources of bank for their business and development activities (Annual report, RBB). They vary from big business houses to public sector enterprise, medium and small scale industries to farmer and individuals. Various credit programs are run by RBB towards satisfaction of its customers by providing modern banking facilities. At the same time, the bank is showing promise to the economic growth and development of the country. It aims to reach every rural and urban corner of Nepal to accommodate the requirement of the people. The bank's extensive branch network and international connections are designed to transact banking activity between any part of the country and any part of the world.

1.2 Statement of the problem

Commercial banks are major component of financial system and they work as a catalyst of economic development of the nation. They accept deposits from public and provide various kinds of loans to business institution and organization. But commercial banks in Nepal have been facing various challenges and problems. These problems arise mainly due to poor economic condition of country; confused policy of government and also many of them arises due to default borrowers.

Commercial bank attracts deposits from customers by offering different rate of interest and different kinds of facilities. As a result, banks have collected a lot of deposits but their deposits are not properly utilized due to lack of sound investment policy. The lack of knowledge on investment, interest rate, financial risk, liquidity risk, unfavorable market conditions etc are the main reasons due to which banks are not getting enough investment opportunities. Similarly, granting loans against insufficient interest, over valuation of good pledged land and building mortgage, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the major obstacles bank is facing due to implementation of unsound investment policy. In the beginning, depositors deposit money by following traditional methods but these days, the methods of deposit depends upon bank management due to growing instruments available in the deposit market. For this study, the following fundamentals problems have been raised:

1. What is the composition of total deposit of RBB over the study period?

2. What is the trend of deposit of RBB over the past five years?
3. What is the sector wise investment of RBB over the study period?
4. What is the trend of sector wise investment of RBB over the past five years?
5. What is the loan recovery position of the bank?
6. What is the rate of return on deposit and investment of RBB?
7. What is the relationship between deposit and investment of RBB?

1.3 Objectives of the study

The main objectives of the study are to analyze the deposit collection and investment policy of RBB. The specific objectives of the study are as follows:

1. To analyze the composition of total deposit of RBB over the study period.
2. To analyze the trend of deposit of RBB over the past five years.
3. To analyze the sector wise investment of RBB over the study period.
4. To analyze the trend of sector wise investment of RBB over the past five years.
5. To analyze the loan recovery position of the bank.
6. To analyze the rate of return on deposit and investment of RBB.
7. To measure the relationship between deposit and investment of RBB.

1.4 Significance of the study

Research itself has its own importance because it helps researcher to gain wide knowledge about their study and also add new literature in existing field. The significance of study mainly lies in filling a research gap on the study of deposit collection and investment policy of commercial bank with respect to RBB. This study helps to reveal financial position of various commercial banks which may be helpful to improve their performance in the future. Similarly, it also helps shareholders and management committee of bank to know the actual clear vision of policy adopted by bank for better deposit collection and utilization of fund.

This study is also important for other researchers, scholars, investors, banking sector, students, government and other parties. It may encourage general public whether to invest further or not and depositor can take decision to deposit their money or not. So, it is very helpful to those who want to study in further detail and widely in this field.

1.5 Limitations of the study

This study cannot escape from framework of limitations. It relies more on secondary data as all data and information are available through banking authorities and websites of internet. Hence, it is not free from its limitations. Its limitations are as follows:

1. This study depends on secondary data collected from banks, financial statements, publication and journals.
2. This study covers only the data of five years period which may not be sufficient for intensive future studies.
3. This study deals with deposit collection and investment policy of RBB. As subject matter is concentrated on given topic, other subject matter is not touched.
4. This thesis is prepared as per the requirement for partial fulfillment for degree of Master of Business Studies.
5. This is only the case study and findings of study cannot be generalized.
6. In this study, only selected financial and statistical tools as well as techniques are used.

1.6 Organization of the study

The whole study is divided into five different chapters. It consists of introduction, literature review, research methodology, presentation and analysis and summary, conclusion and recommendation of the study.

First chapter deals with background of study, statement of problem, objectives of study, significance of study, limitations of study and organization of study. Like that, second chapter includes brief review of literature related to this study. It consists of conceptual framework and review of related books, journal, articles and unpublished dissertations related to this study. Similarly, third chapter defines various methodologies employed in this study. It includes research design, population and sample, nature and sources of data, data collection procedures and technique, data analysis tools and limitations of the methodology. Again, fourth chapter includes presentation and analysis of data using different financial ratios and statistical tools along with major findings of the study. Finally, fifth and last chapter includes summary, conclusions and recommendations of the study. Beside this, bibliography and appendix are presented at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

This chapter is basically concerned with the deposit collection and investment policy of Rastriya Baniya Bank (RBB). Every study is based on knowledge and information obtained from past research work. In this regard, various books, articles and dissertations related to this topic have been reviewed. The past studies done by various researchers provide proper foundation to the research study. All the relevant literature and articles reviewed from national and international publications as well as unpublished reports available from different library and institutions are very helpful for the completion of research work.

2.1 Conceptual framework

This sub-chapter shows the theoretical aspects of the study. It includes concept of commercial bank, functions of commercial bank, objectives and importance of commercial bank, concept of deposit, concept of investment, features of sound lending investment policies and investment management for the completion of this research work.

2.1.1 Concept of commercial bank

Commercial banks are the financial institution which deals with money and credit as it accepts deposits from the public, makes the fund available to those who need them and helps in the remittance of money from one place to another. Commercial banks are the most important source of institutional credit in the money market.

Bowley (2000) has defined commercial bank as the one which accept deposit, grant loans, performs commercial banking functions and mobilize the collected fund towards the profitable, secured and marketable sectors.

Khadka and Singh (2000) stressed that commercial bank was first used to indicate that the loans extended were short term loans to business, though later loans were extended to consumers, government and other non business institutions. In general,

the assets of commercial bank tend to be liquid and carry less risk than the assets held by other financial intermediaries.

Dahal (2002) has explained commercial bank as the corporation which accepts demand deposits and makes short term loans to business enterprise regardless of scope of its other services.

Bhandari (2003) has defined the meaning of commercial bank as the banks which operates currency exchange transactions, accept deposit, provides loans and performs other various activities relating to commerce and they are the constituent units of the banking system.

Shrestha (2003) has defined commercial bank as the heart of financial system. They hold the deposit of millions of persons, government and business units. They make fund available through lending and investing activities to individual, business units and government.

So, commercial banks are the financial institution that offer the widest range of financial services especially credit, saving and payment services and perform the widest range of financial functions of any business firm in the economy. These institutions are run to make a profit and owned by a group of individuals and as well few institutions are also the members of Federal Reserve System. Due to this, the commercial bank is also named as “financial supermarket”.

2.1.2 Development of banking and financial institutions in Nepal

Dahal (2005) has mentioned about the history of banking which was started from the very beginning. It started when goldsmith deposited valuables from people and encouraged people for doing the same. However, in Nepal, banking history is said to be started from 732 A.D when a king named Gunakam Dev borrowed money to reconstruct his kingdom, Kathmandu. Similarly, Jayasthiti malla established a caste 'Tankadhari' to lend money to the people. Similarly in 1877 A.D 'Tejarasn Adda' was established as a financial institution during the reign of Ranodip Singh. At beginning, only government staffs were allowed to take loan at 5 percent interest rate but later public were also allowed to take loan at the same rate. Nepal bank limited 'Tejrath

Adda' was established with the ownership of public and government in 1937 A.D under Nepal rastra bank act 1937 A.D. However, there was a need of central bank in the nation. So, Nepal Rastra Bank, the central bank came into existence in 1956 A.D with objectives of supervising, protecting and directing the function of commercial banking activities.

Slowly, another fully government owned bank named “Rastriya banijya bank” was established in 1966 A.D to provide banking services to both rural and urban areas. In 1963 A.D, cooperative bank was established which was later converted into “Agriculture development bank” in 1967 A.D. After restoration of democracy in Nepal, the first elected government in 1991 adopted liberalized and market oriented economic policies which includes the measures related with deregulation of interest rate, free entry of bank and financial institution, removal of statutory liquidity ratio, enactment of various act so as to encourage private sector including foreign banks and financial institutions for divestment of government shares in financial institutions. Since then, various financial institution i.e. joint venture banks, domestic commercial banks, development bank, financial companies, cooperative banks, national insurance corporation, NEPSE have come into existence to provide banking services and facilities to the people. These all financial institutions have made valuable contribution for the economic and financial development of the nation.

2.1.3 Functions of commercial bank

Commercial bank performs different functions such as core function and support function to the business world as well as for general people. Core functions include two types of functions i.e. fund based and non fund based functions. Similarly, support functions are those functions carried out to fulfill core functions. Kunwar (1972) has mentioned four major functions of commercial bank i.e. receiving payment, handling payment, making loans and investment and creating money by extension of credit. Similarly, other functions of commercial bank explained by him are as follows:

a) Accepting of deposit

Commercial bank accepts deposit from the public under various accounts which are named as fixed account, current account, saving account and other accounts. The

commercial banks are fully authorized to collect the fund from various sources. In addition, the accumulated money is disbursed in the productive sector by providing credit that helps the bank to raise their fund more effectively.

b) Agency function

Various agency functions performed by commercial bank are as follows:

-) To transfer the fund
-) To make collection of customer fund
-) To purchase and to sell shares and securities for customers
-) To make a payment of insurance premium
-) To act as trustee and executor
-) To act as correspondent

c) Disbursement of loan

The commercial bank also provides credit facilities to borrower with an agreement to receive principal amount along with interest from the borrower. Such lending also contributes a lot to the economy in term of financing, agriculture, industrial and commercial activities of nation.

d) Facilitating foreign trade

The commercial bank makes proper arrangement of amount of foreign exchange when it is required by business organization. Also, foreign trade transactions have been facilitated by issuance of commercial letter of credit.

e) Consultancy

Bank also provides consultancy services to many business organizations. For this, they hire legal, financial and market experts and they also provide necessary advice and suggestions to customer regarding investment, trade, industry, tax etc.

f) Remittance

Bank provides the facilities of remittance to customer and earns some service charge from them. Generally, bank provides such facilities through cheque, bank drafts, letter of credit etc. Nowadays, it is one of the main functions performed by commercial bank playing significant role for the development of national and international trade.

g) Bank guarantee

Bank also ensure guarantee to customer in various cases. When customer have to deposit certain fund in governmental offices or courts as legal case, then bank can present itself as the guarantee for the customer instead of depositing fund by customer. Bank provides such facility when customer have sufficient fund in their account.

2.1.4 Objectives and importance of commercial bank

The main objectives of commercial bank are to maintain higher profitability by maintaining circular and efficient flow of amount of money deposited by the customer and lenders. It contributes to the economic cycle by keeping the money circulation among households, government and corporate businesses. Kulkurmi (2001) has explained the objectives and importance of commercial bank as follows:

a) Freedom from exploitation of economy

Earlier, goldsmith and money lender used to provide loans to borrower by keeping gold, silver and land as mortgage and charged higher interest rate on it. Due to this borrower have to sell their assets at lower price. So, there is vast difference between rich and poor people. Therefore, the objective of commercial bank is to safeguard people from exploitation of economic activities and to maintain proper relation between bank and local people.

b) Mobilize saving

Depositors deposit their money in bank to get interest along with principal amount from the bank. They are encouraged to make high deposit in bank if the interest rate provided by bank is higher and vice versa. So, the objective of bank is to mobilize the saving in productive areas and to earn return from such mobilization.

c) Capital formation

One of the important objectives of commercial bank is to increase the rate of capital formation as bank collects idle cash from public and distribute it as a loan to needy traders, business house and government. This sort of activities increases the expected investment and the rate of capital formation.

d) Foreign investment

Commercial bank plays an important role in attracting foreign investment by familiarizing the investors (i.e. multinational companies, organization, institution, and bank) with relevant Nepalese financial rules and regulations and practices through their publication.

e) Banking technique

The commercial bank in Nepal begs the credit for the introduction of new banking techniques such as hypothecation and syndicating under guidance of NRB. They apply various techniques to attract more customers and to maintain proper banking transactions. So, various innovation techniques in international banking system have been introduced to NRB by financial institutions, commercial bank and joint venture banks.

2.1.5 Concept of deposit

In general, money placed into a banking institution for safekeeping is known as 'deposit'. They are the funds collected by bank from account holders for the security and transaction motives. It is the amount of money or a valuable item that is received into a bank as security against possible loss. Deposits are the foundation upon which banks survive and grow. It represents the ultimate source of bank profits and growth. It also generate cash reserve fund.

Gupta and Pradhan (1985) have explained the definition of deposit as money placed into a banking institution for safekeeping. Various deposits are made at a banking institution such as savings accounts, checking accounts and money market accounts. The account holder has right to withdraw any deposited funds according to terms and conditions of bank. The deposit itself is a liability owed by the bank to the depositor and refers to liability rather than the actual funds that are deposited.

Garg (1998) has explained the meaning of deposit as the loan granted by the bank through the process of discounting customer's bills. In this case, they are known as created deposit and in actual practice; the amount of such deposit is much larger than receiving cash.

Kothari (2001) stressed that deposit is the main source of income to bank. The success

of any bank depends upon its ability to attract large number of customers towards bank. As long as customer keeps on depositing money in bank, the bank will run smoothly and can meet all financial and administrative expenses needed for its daily operation.

Sharma (2003) has defined deposit as the source of capital for the commercial bank which is mainly divided into fixed, saving and current deposit. Bank utilizes such amount as loan and invests in different sectors to earn profit.

Basically, deposit is categorized into 3 headings for accounting and financial analysis purpose. Harish (1965) has explained various types of deposits which are as follows:

a) Fixed deposit

It is also known as time deposit. It is a kind of deposit on which the depositor and bank agree that the money will not be withdrawn without substantial penalty to the depositor before a specific date. These are frequently called as certificate of deposit (CDs). This kind of deposit carry fixed maturity period usually covering 30, 60, 90, 180 days, 1 year and above with fixed interest rate. Usually, in this kind of deposit, interest rate is very high than saving deposit. Because of a substantial early withdrawn penalty, time deposits are not liquid as demand or saving deposits nor can depositors write cheques against time. This kind of deposit typically requires a minimum deposit amount.

Features of fixed deposit

-) The amount or money can't be withdrawn by cheque in this deposit like in other current and saving deposits.
-) Usually, the interest rate is awarded every 3 month in this deposit.
-) The customer can renew the fixed period deposit after the expiry of fixed time.
-) The fixed period deposit has certain time period which may be starting from 7 days to 5 years or more.
-) In fixed period deposit, the minimum interest rate is 3.5 percent and maximum interest rate is 13.5 percent according to duration of time.
-) The rate of interest is slightly higher in fixed deposit rather than other types of deposits.

-) Here, certificate of deposit can be used as collateral when account holder needs loans from bank.
-) Fixed deposit account can be renewed after expiry of due date. So, the depositor should enter into new contract with bank depending upon bank authority.

b) Current deposit

It is also known as demand deposit. It is a kind of deposit that can be withdrawn on demand at any time and in any amount up to the full amount of the deposit. This type of account is generally opened by businessmen who needs amount on regular basis. Here, the customer is allowed to make frequent use of his account i.e. to deposit or withdraw money on his own desire. Generally, no interest is paid on this deposit except if there is any permission permitted by central bank.

Features of Current deposit

-) Under this deposit, the customer can get the payment any time by sending cheque to bank.
-) The account holders are allowed the facility of sending cheque and note for collection from one place to another place.
-) No interest is given on current deposit.
-) The accountholders can be given overdraft facility after special arrangement between bank and account holders. Such facilities allow holder to withdraw cash excess over the balance held by them.
-) If there is only minimum balance in the account, bank can charge or deduct on the balance as handling charge.

c) Saving deposit

Bank accepts saving deposit from individual and nonprofit organization to encourage habit of saving among common people and institutions. The bank pay interest to depositors but have no specific maturity date on which funds need to be withdrawn or reinvested. So, customer can withdraw amount by presenting cheques drawn to the bank. The commercial bank also accepts deposit from public under the saving account. These accounts are opened to promote the saving of middle class and lower class of people. It is also known as thrift deposit. It carries low interest rate and

normally can be withdrawn at any time. It is designed to attract fund from customers who wish to set aside money in anticipation of future expenditures or future emergencies. All saving depositors are provided cheque pad and pass book of saving deposit. So, it is also called passbook saving deposits.

Features of saving deposit

-) Usually, the interest is given every six months in this deposit.
-) Generally, the bank provides 5 percent to 8 percent interest in this deposit but this percentage may change.
-) The accountholders can withdraw amount two times a week on saving account.
-) The account is operated through withdrawal slip. For this, cheque book and passbook are issued to accountholders.
-) If the bank goes into liquidation, more priority is given to saving deposit rather than fixed deposit and current deposit.
-) If the holder tends to withdraw amount without pre notice, the bank may refuse to give the payment. If it doesn't refuse, it may take some charge as a fine to give the deposit.

d) Call deposit

It carries out the characteristics of both current and saving deposit. It can be withdrawn at call and interest can be earned on deposit just like in saving deposit. The companies not entitled to open saving account can open call account. Interest rate on call deposit is negotiable between the bank and the depositor and hence it is not published or announced in public. Interest rate is applied on daily average balance and withdrawal restriction is not imposed on call deposit but the balance should not go below on agreed level.

e) Margin deposit

This deposit is non interest bearing deposits. Bank opens such deposits in various forms like guaranteed margin, L/C margin, employee guarantee etc. Here, bank guarantees can be held individually or jointly. The holder of the account also enjoys the facility of nomination. The interest income from bank deposits is taxable under income tax act. The prevailing tax provision is 6 percent on the interest income for individual and 15 percent on the interest income for others. However, tax exemption

is provided to the units specifically exempted by the government. Deposit received from depositor as well as interest payable can be credited to account of depositors.

f) Provident fund deposit

This is a scheme to help employees of both private and non pension public sectors in which they save fraction of their salary over month in a saving scheme. When employee get no longer fit to work or when they retire, they receive total amount along with certain interest. It is similar to recurring deposit at certain extent. In recurring deposit, the employee get amount with interest after certain fixed period whereas the employee will receive total amount with interest after their retirement of job in provident fund deposit.

2.1.6 Deposits offered by RBB

Similarly, RBB has offered various kinds of deposit for public people. As we know, without collecting deposit, the operation of bank is impossible. So, keeping in mind, the various kinds of deposits along with their interest rate provided by RBB are as follows:

i) Saving deposit

Saving account pay interest to the depositors but have no specific maturity date on which the funds need to be withdrawn or reinvested. Here, the customers can withdraw their money from a saving account simply by presenting cheques drawn to the bank. Various kinds of saving deposit along with their interest rates offered by RBB are as follows:

➤ **Normal saving deposit**

The deposit made by normal or ordinary people is known as normal saving deposit. Here, this bank provides interest rate with 3.5 percent per year to the depositor.

➤ **RBB special saving deposit**

This deposit has special benefits than normal saving deposit. In this kind of deposit, this bank provides interest rate with 4 percent per year to the depositor.

➤ **RBB golden saving deposit**

This deposit provides high interest to the depositor than any other form of saving deposit. Actually, in this kind of deposit, the bank provides interest rate with 4 percent per year to the depositor.

➤ **Chuna muna saving account**

This is a kind of deposit which is especially made for small children. So, it carries slight low interest rate than other forms of saving deposit. In this kind of deposit, the bank provides interest rate with 4 percent per year to the depositor.

➤ **Maha laxmi saving account**

The deposit which is offered to middle aged women is termed as maha laxmi saving account. In this kind of deposit, the bank provides interest rate with 4 percent per year to the depositor.

ii) **Fixed deposit**

Fixed or time deposits are deposits on which the depositor and the bank agree that the money will not be withdrawn without substantial penalty to the depositor before a specific date. These deposits are called as certificates of deposit. It comes in wide variety, ranging from negotiable certificates of deposit. Various kinds of fixed deposit along with their interest rates offered by RBB are as follows:

➤ **Normal fixed deposit**

The deposit which has maturity period of three years is known as normal fixed deposit. In this kind of deposit, the bank provides interest rate with 4.5 percent for 3 months, 5 percent for 6 months, 5.5 percent for 1 year, 6 percent for 2 year and 6 percent for 3 years.

➤ **Special fixed deposit**

This kind of fixed deposit has similar interest rate if it is compared with normal fixed deposit. In this kind of deposit, the bank provides interest rate with 6 percent for 1 year, 6.5 percent for 2 years and 6.5 percent for 3 years.

➤ **Corporate fixed deposit**

This kind of deposit is made for other companies who want to deposit their money for

a certain period of time. In this kind of deposit, the bank provides interest rate with 6 percent for 1 year, 6.5 percent for 2 years and 6.8 percent for 3 years.

➤ **Diamond fixed deposit**

The deposit which has maturity period of one year is known as diamond fixed deposit. In this kind of deposit, the bank provides interest rate with 6 to 6.5 percent each year.

iii) Current deposit

A demand deposit is a deposit that can be withdrawn on demand at any time and in any amount up to the full amount of the deposit. It is also called as payment deposit and transaction deposit.

2.1.7 Concept of investment

The term “investment” is quite confusion which gives various meanings. In finance term, it is related with placing of money in hands of other for their use, in return for a proper instrument entitling the holder to fixed income payments or the participation in expected further profits. In simple terms, it refers to purchase of financial assets while investment goods are those goods which are used for production. It implies the production of new capital goods, plants and equipments. In manufacturing and trading firms, it gives meaning of long term expectation which aim at increasing plant capacity or at building goodwill and provide adequate return over a period of time.

Fry (1974) has explained various factors of investment which involves putting money into bond, treasury bills or notes or common stocks or paintings of real estate or mortgages or cattle in the theater. It is concerned with transaction in bill markets or selling short in bear markets. It also includes options, straddles, rights, warrants, convertibles margin, gold, silver, mutual funds, money market funds, index funds etc. In this case, the reward may be uniformed results can be disastrous.

Ward (1975) explains that investment is the commitment of funds to one or more assets that will be held over some future time period. It is also concerned with the management of an investor's wealth which is the sum of certain income and present value of all future income.

The above definition explains that an investor means to trade a known rupee amount

today for some expected future stream of payment of benefits that will exceed the current outlay by an amount and compensate the investor for the time. The funds are committed for the expected changes in price during the period and also for the uncertainty involved in expected future cash flows. Thus, investment is the most important function of commercial bank. It is the long term commitment of bank in uncertain and risky environment. It is a very challenging task for commercial banks. So, a bank needs to be very conscious while investing their funds in various sectors. The success of any bank largely depends upon the proper management of invisible funds.

Balla and Tutesa (1983) define that investment has a rather precise meaning in the literature of economic theory which typically includes net addition to capital stock of society. By capital stock of society, it means those goods which are used in the production of other goods. He says it is good, societal or aggregate point of view. This definition implies that in society, there are number of goods which are used to produce other goods and these means of production are considered as part of the capital stock of society. For a number of reasons, economists also include inventories as part of capital stock. Thus, a net addition to capital stock and investment means an increase in buildings, equipment or inventories that exist.

Sayers (1987) stressed that investment is any vehicle into which funds can be placed with expectation that will preserve or increase value and generate positive return.

Shakespeare (1991) has elaborated definition of investment which shows effectiveness of implementing sound investment policy as it covers wider aspects. The sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on one hand and provides maximum safety and security to depositors and bank on other hand. Moreover, in banking sector, higher risk is involved in loan portfolio. When there is a financial problem in bank, it usually springs from significant amount of loans that have become uncollectible due to poor management and imbalance economic downturn. Therefore, the investment policy of bank should be sound and prudent in order to protect funds. The nature and availability of funds and assets also differ widely from region to region with country to country. For example, the scope of operating bank in Jumla will be different from the scope of bank operating in Katmandu. The investment policy to be applied in Katmandu may not be applicable to customer of Jumla because the demand of loans is less in rural areas where it is high in urban area.

Charles (1998) defines investment as sacrifice of a certain present value for possible uncertain future value. It is the choice between consumption in the present and consumption in a future time and refers to purchase and continued ownership of some form of assets over a period of time with objective of earning income and to secure maximum possible profits from increase in capital value. He further explains that expected income can be periodic inflow of money such as rent from a house, dividends from shares or interest from bonds and as well as capital sum of money such as profit from selling shares or capital gain from selling a property.

Khan and Jain (1998) define that the objective of investment are concerned with risk factor which is in proportion with degree of return. They mention that it is necessary to increase systematically the individual wealth to achieve the objectives of investment which is known as assets minus liabilities. They have further explained that an investor who seeks high return must be willing to face high level of risk.

Wolf and Pant (2000) explain investment in its broadest sense means the sacrifice of current dollars for future dollars. Two attributes are generally involved with time and risk. The sacrifice takes in the present and it is certain. The reward comes later and the magnitude is generally uncertain. In some cases, the element of time predominates (for example government bond). In other case, risk is the dominant attribute (for example call option on common stock) showing equal importance of time and risk.

Jones (2001) has defined investment means to employ money at present to generate more money in future. It is the sacrifice of current rupees where the return is primary motive of investment. Every investment entails some degree of risk. At present, it requires certain sacrifice for a future certain benefits (Jones, 2001).

Sounders and Corneit (2001) stated that investment constitutes a banker's third line of defense, after cash and bills discounted. It yields a higher return than those obtains liquid assets but are less than loans and advances. Bank invests large proportion of their fund in government securities which are highly liquid and can be traded easily due to low default risk. Thus, bank maintains proper amount of such securities for liquidity needs that arise unexpectedly.

Thus, investment promotes the contribution of nation's wealth and economic growth. Bank should invest its fund by lending to various business institutions. All business institutions in turn invest their money in modern factories and equipment to develop

their production. Beyond this, most of companies issue stocks and bonds in order to sell it to customers to raise capital needed for business expansion. Government also issue bonds to obtain fund needed for their various national projects. So, it basically involves a present sacrifice of income to get an expected future benefit and as a result investment raises a standard of living of people in a particular nation. Johnson (1965) has explained various kinds of investment which are as follows:

a) Induced investment

Investments which change with changes in income level are known as induced investment. It is positively related to the income level. At high levels of income, entrepreneurs are induced to invest more and vice versa. At a high level of income, consumption expenditure increases and it leads to an increase in investment of capital goods in order to produce more consumer goods.

b) Financial investment

Investment made in buying financial instruments such as new shares, bonds, securities etc is considered as financial investment. However, the money used for purchasing existing financial instruments such as old shares, old bonds etc cannot be considered as financial investment. It is a mere transfer of financial assets from one place to another. In financial investment, money invested for buying of new shares and bonds as well as debentures have a positive impact on employment level, production and economic growth.

c) Autonomous investment

Investment which doesn't change with changes in income level is called as autonomous investment or government investment. It remains constant irrespective of income level which means even if the income is low, the autonomous investment remain the same. It refers to investment made on houses, roads, public buildings and other parts of infrastructure. The government normally makes such a type of investment.

d) Real investment

Investment made on new plant and equipment, construction of public utilities like schools, roads, railways etc is considered as real investment. Real investment in new machine tools, plants and equipment purchased, factory building etc increases

employment, production and economic growth of nation. Thus, real investment has a direct impact on employment generation, economic growth etc.

e) Planned investment

Investment made with plan in several sectors of economy with specific objectives is called as planned or intended investment. It can also be called as intended investment because an investor while making investment makes a concrete plan of his investment.

f) Unplanned investment

Investment done without any planning is called as an unplanned or unintended investment. In this type of investment, investors make investment randomly without making any concrete plans. Hence, it can be also called as unintended investment. In this kind of investment, the investor may not consider the specific objectives while making an investment decision.

g) Gross investment

Gross investment means the total amount of money spent for creation of new capital assets like plants and machinery, factory buildings etc. It is the total expenditure made on new capital assets in a period.

h) Net investment

Net investment is gross investment minus capital consumption (depⁿ) during a period of time usually a year. It must be noted that a part of investment is meant for depreciation of capital assets or for replacing a worn-out capital assets. Hence, it must be deducted to arrive at net investment.

So, the meaning of investment is quite different. So, as an investor, it's a rationale decision to make investment in any financial or business sectors.

2.1.8 Features of sound lending investment policies

The success of any particular bank can be measured by its lending procedures and investment of its fund in different securities and different sectors of market. A sound lending and investment policy is not only prerequisite for bank profitability but also crucially significant for the promotion of commercial saving in backward nation like

Nepal. Johnson (1940) has mentioned few important features of sound lending investment policies which are as follows:

a) Safety and security

A bank should be very conscious while making investment decision. It should mobilize those fund and securities which are subject to too much of depreciation and fluctuation since small changes can create a massive loss. So, it must not invest funds just like speculative businessman who may be bankrupt at once and who earn million in a minute. Bank should accept those securities which are durable and whose share value is very high in the market. In this case 'MAST' should be applied for investment, where

M	= Marketable
A	= Ascertain ability
S	= Stability
T	= Transferability

b) Profitability

The main objective of commercial bank is to maximize profit by performing lending and investment activities. So, they must invest their fund in such areas where they gain maximum profit. The profit of commercial bank mainly depends upon interest rate and volume of loan. Similarly, the rate of return, time horizon, nature of investment, risk position, market position etc should be considered if any single bank wants to earn high profit in this competitive age.

c) Liquidity

Liquidity shows the position of bank and its capacity to meet entire obligation. In other words, it refers to capacity of bank to pay cash against deposit. In banking, adequate liquidity means ability to meet the needs of depositors who want to withdraw fund and borrowers who want to be assured that their credit or cash needs will be met. It is also measured in terms of debt capacity or borrowing capacity to meet short term demand for funds. People deposit money in bank with confidence that bank will repay them any time when they need money. So, to maintain such confidence of depositors, the bank should be careful while investing their funds in different securities and also it must ensure that it can meet current or short term

obligation when they become due for payment.

d) Purpose of loan

All the customers must know clearly the main reason of granting loan by bank. If they misuse the loan granted by bank then bank have to suffer heavy loss. So, bank should examine its banking transactions time to time.

e) Diversification

Diversification of loan helps to sustain loss according to law of average. If the company loses value of its security then there may be appreciation in the value of other securities. In this way, loss can be recovered.

f) Tangibility

Though it may be considered that tangible properties doesn't provide yield on income apart from direct satisfaction of possession of property, many times intangible securities lose their value due to price level inflation. A bank should prefer tangible security to intangible one.

g) Legality

Illegal activities can create lots of problem for the investor. So, a bank must follow rules and regulations as well as they have to obey direction provided by NRB, ministry of finance and others while mobilizing their funds.

2.1.9 Investment management

It is the process of managing money. So, it is also called as portfolio management and money management. It may be active or passive, may use explicit or implicit procedures and may be relatively controlled or uncontrolled. Jerome (1997) has explained investment management processes which are as follows:

a) Specification of investment objectives and constraints

Investment needs to be guided by a set of objectives. The main objectives taken into consideration by investors are capital appreciation, current income and safety of principal. The relative importance of each of these objectives needs to be determined.

b) Choice of the asset mix

In investment management the most important decision is with respect to the asset mix decision. It is to do with the proportion of equity shares or shares of equity oriented mutual funds i.e. stocks and proportion of bonds in the portfolio. The combination on the number of stocks and bonds depends upon the risk tolerance of the investor.

c) Formulation of portfolio strategy

There are two types of portfolio strategies which need to be formulated very properly. The first is an active portfolio strategy which aims to earn greater risk adjusted returns depending on the market timing, sector rotation, security selection or a mix of these. The second strategy is the passive strategy which involves holding a well diversified portfolio and also maintaining a pre-decided level risk.

d) Selection of securities

Investors usually select stocks after a careful fundamental and technical analysis of the security they are interested in purchasing. In case of bonds credit ratings, liquidity, tax shelter, term of maturity and yield to maturity are factors that are considered.

e) Portfolio execution

This step involves implementing the formulated portfolio strategy by buying or selling certain securities in specified amounts. This step is the one which actually affects investment results.

f) Portfolio revision

This principally involves shifting from bonds to stock or vice-versa. Sector rotation and security change may be needed.

g) Performance evaluation

The assessment of the performance of the portfolio should be done from time to time. It helps the investor to realize if the portfolio return is in proportion with its risk exposure. Along with this it is also necessary to have a benchmark for comparison with other portfolios that have a similar risk exposure.

2.2 Research review

2.2.1 Review of related articles

This heading presents the review of related studies and research articles published in different journals, bulletins, dissertation paper, magazines, newspaper, websites and other related materials. Here, various articles related with this topic are reviewed to get an adequate information and knowledge about deposit collection and investment policy of RBB. Without reviewing relevant articles, the researcher can't develop idea and knowledge inside their mind. So, as a researcher, they must have clear mind set about activities that they are going to do for the completion of their research work. Basically, in this study, various articles are reviewed which are as follows:

Gautam (1988) in an article, deposit and credit policy of commercial bank in Nepal has concluded that credit deposit ratio has reached 51.30 percent in 2004 A.D if other things remain same which was very low at that time. So, he has strongly recommended that the commercial bank should get more chance to expand its investment or credit opportunities. Otherwise, they might not be able to absorb even its total expenses.

Bajracharya (1990) has presented that mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. So, commercial banks are the most active financial intermediaries for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy.

Sharma (1990) in an article, monetary policy and deposit mobilization in Nepal has stated that mobilization of deposit is one of the primary objectives of monetary policy in Nepal. So, he has suggested that all commercial banks and financial intermediaries should adopt appropriate monetary policy to expand investment and credit opportunities and to mobilize the collected fund in various productive sectors which can generate higher return for them.

Pradhan (1996) in an article entitled, deposit mobilization, its problem and prospect has presented that deposit is the life blood of every financial institutions whether it is commercial bank, finance company, cooperative or any non government organization.

There were various problems in his article such as lack of knowledge among people about importance of making deposit in bank, lack of institutional service in rural areas and lack of proper banking system for making deposit and for investing funds. So, he has recommended that all Nepalese people must develop habit of saving money in bank by teaching or guiding them about the importance of banking and financial institutions in this modern age. Also, more priority should be given towards providing banking and financial services in rural areas.

Bhatta (2000) has given more emphasized on Nepalese financial market sector by comparing with financial crisis occurred in China, Mexico, South Asia, Russian Federation, Ecuador, Brazil and Argentina. This crisis affected the economic position of all these banks by posing negative effects in their real output. In the present context in many parts of the world, the move towards liberalization is getting its momentum on one hand and the process of economic development is being threatened due to various unanticipated incidents on the other hand. Similarly, the financial markets are unable to provide funds to those who have the chance of making investment opportunities. So, he has suggested methods such as introducing legal and judicial system, formulating monetary and fiscal policy, reducing role of state owned financial institution and encouraging people to invest their idle fund in various securities in order to solve the problem of financial crisis.

Shrestha (2001) in an article, lending operation of commercial bank of Nepal and its impact on GDP has presented an analysis of contribution of commercial banks to GDP of Nepal. In her hypothesis, there is a positive impact of lending of commercial banks to the dependent and independent variables. A multiple regression techniques have been applied to analyze the contribution.

Paudel (2002) has focused regarding various potential areas where banks should invest to meet the prevailing economic recession. Currently, growth in the profitability of joint venture banks has been mainly due to external factors such as foreign exchange rate, foreign involvement in Nepalese bank, foreign aid etc. Therefore, to sustain the current financial position in the long run, banks should enter new areas by making investment in various sectors such as hydroelectricity, tourism, irrigation and so on. Similarly, saving collection is another factor which is necessary

for bank to balance their operations and to generate sufficient surplus in their cash flow. In recent years, growth rate of bank deposits has declined to 16 percent as compared to 23 percent of the past mobilization of internal resources in the country. So, the bank demands more financial resources from the public.

Regmi and Pandey (2002) have presented a model in which a risk management motive explains the combination of transactions deposits and loan commitments as long as there is demand for liquidity from depositors. An intermediary will be able to reduce its need to hold cash by serving bank customers. Thus their model yields a diversification synergy between demand deposits and loan commitments. As evidence, they show that banks offering more transaction deposits tend to make more loan commitments (also scaled appropriately). The correlation is robust across all categories of banks.

Dhungana (2006) has conducted a study about need of investment policy in Nepalese banking system. In this study, he has concluded that investment policy in Nepal is not systematic and not organized due to which commercial banks are not getting sufficient return from their investment. Thus, he has suggested that investment policy should be sound and farsighted so that bank can earn sufficient return from their investment made in different sectors.

2.2.2 Review of related dissertations

This section is concerned with previous research work done by different scholars in various aspects of commercial banks such as investment policy, deposit structure, lending policy, resource mobilization and capital structure, financial performance etc. Some of the supportive dissertations relevant to this study are presented below:

Pant (1976) has conducted study about deposit collection and its utilization of commercial bank where he tried to examine the resources collection and utilization. The commercial banks had failed to utilize their resources due to lending for short term only. In this thesis, the deposit position and utilization of funds of commercial bank was shown but the risk factor that affects the working procedures of commercial bank was not identified. So, the financial position and investment policy of commercial banks was not properly shown. At last, he has suggested that all

commercial banks should give preference on long term lending sectors for better utilization of the deposits and improvement of their existing situation.

Bhattarai (1978) has conducted study about lending policy of commercial banks with objective to examine the lending and credit policy of commercial banks. The study concluded that efficient utilization of resources was more important than collection of the fund. Lower investment means lower capital formation that hampers economic development of people and nation. So, she has suggested that bank needs to give more emphasize on efficient utilization of resources.

Pradhan (1980) has carried out study on investment policy of Nepal Bank Limited. The main objectives of study were to find out determinants of investment policy in commercial banks. The study revealed that there was a greater relationship between deposits and loans and advances. She concluded that though loans and advances as well as deposits were in increasing trend, their increase was not in proportionate manner. Even the immense increase in deposits led to little increase in loans and advances due to increase in the interest rates. So, he has suggested that Nepal Bank Limited needs to follow simple rules and procedures but an effective one while granting loans and advances to customers.

Bajracharya (1981) has conducted study on deposit collection and loans and advances of Nepal Bank Ltd for six years period. There was an increasing trend in deposit but there was a fluctuation in the case of loans and advances. It was due to the change in interest rate and as well loans and advances position was less satisfactory at that period. So, the resources of the bank were not fully utilized. The bank had invested a lot in long-term investment instead of granting loans and those investments were found in the form of development bonds issued by N.G. Therefore, in order to have the proper utilization of source of bank, the bank should expand its credit facility and should disregard long term investment in those sectors. Finally, he has concluded that the deposits as well as loans and advances must increase proportionately in order to maintain proper balance in the bank.

Regmi (1982) has submitted thesis named a study of lending policy of Agriculture Development Bank related to poultry farming in Kathmandu district where he made

an attempt to determine the relationship between target and achievement of repayment of loans of ADB with respect to poultry farming in Kathmandu district. Also, he was trying to figure out whether the credits provided by ADB were satisfactory to the present needs of poultry farmers or not. After completing study, he found that there was delay in loan procedure while granting loans or while making loan collection due to misuse of loans and mismanagement of bank. Similarly, lack of adequate fund, overflow of credit, no application of loan, no supervision program, defective payment system and poor scheduling were the main obstacles that ADB was facing while making loan collection. So, to overcome these regular problems, he has suggested that all banks need to implement appropriate strategy to make efficient collection of loan in proper time and as well awareness program should be conducted for helping farmers to develop new methods and techniques related with poultry farming. Furthermore, it is necessary to educate farmers about making repayment of loan to ADB regularly and they should be taught about changing government policies and innovation of farming techniques.

Pokharel (1983) has conducted study about investment policy and pattern of Rastriya Banijya Bank. The main objectives were to review investment policy of RBB, to examine utilization of deposits and to establish proper relationship between deposits and loans and advances along with effect on them by change of interest rates. She concluded that bank was giving more emphasis towards security of gold and silver and the bank was not quite able to implement effective investment policy except following the directives of NRB from time to time. At last, she has suggested that bank should adopt appropriate lending and investment policy and it needs to mobilize its collected fund properly. Also, there is a need of effective control, guidance and supervision to improve the performance of RBB.

Sharma (1993) has submitted a thesis named, investment planning of commercial bank in Nepal. In her study, the portfolio (loans and investment) of commercial banks was influenced by the variable securities rate and investment planning of commercial bank in Nepal was directly related to fiscal policy of government and working procedures of central bank. So, the investment planning and operation were not made in professional manner in commercial banks of Nepal. At last, she has suggested that

all commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.

Khadka (1998) has conducted study on investment policy of NABIL Bank in Comparison to other Joint Venture Bank of Nepal where he made an attempt to examine and interpret the investment policies adopted by NABIL and other joint venture banks of Nepal. The main objectives were to analyze the liquidity, assets management and profitability position of all sample banks and to determine the relationship of deposit with total investment and loans and advances. In major findings, the mean ratio of investment on government securities to total working fund of NABIL was lower than other joint venture banks. Furthermore, there was an increasing trend in growth ratio of NABIL and there was a significant relationship between deposit and loans and advances as well as outside assets and net profit. So, he has recommended that NABIL needs to collect large amount of funds, must make variety of deposit scheme and should increase cash and bank balance to meet loan and cash demand of the customers. Similarly, it should follow liberal lending policy and should invest more amount of total deposit in loans and advances and government securities and as well it needs to utilize the shareholder's fund in high profitable sectors.

Gautam (2000) has conducted study about investment analysis of finance companies in the context of Nepal. The main objectives were to determine the fund mobilization and investment position of government securities, to examine loan position of finance companies and to analyze total investment on total net profit of finance companies. In this study, the investment on government securities had increased rapidly during the study period of five years. Similarly, altogether 38 companies were having investment on hire purchase loan but the use of funds towards hire purchase loan was decreasing rapidly. Apart from that, few companies had invested on term loan and the use of term loan was slowly increasing in that period of five years. But the main drawback in this study was that sufficient financial and statistical tools were not used to reveal deposit position and to provide the clear picture of loan position of finance companies. Thus, he has suggested that sound investment policies should be adopted by all finance companies of Nepal to improve deposit and loan position and to mobilize the fund in

productive manner in the future. Furthermore, all these finance companies need to make more investment on government bonds and securities which are highly liquid and which can provide adequate return all the time.

Tuladhar (2000) has conducted study about investment policy of Nepal Grindlays Bank Ltd and its comparison with other joint venture banks of Nepal. The objectives of the study were to examine the fund mobilization and investment policy with respect to off and on balance sheet transaction, to analyze the growth ratio of loans and advances and to perform an empirical study of customer's views and ideas about services and facilities provided by joint venture banks. From this study, he made conclusions that NGBL had maintained consistent liquidity ratio and total investment to total deposits ratio of NGBL was higher than other joint venture banks. Similarly, loans and advances to working fund ratio of NGBL was less than others but investment on government securities to working fund ratio of NGBL was higher than other joint venture banks. At last along with conclusions, he has suggested that NGBL needs to increase investment on shares and debentures to maintain higher profit and strong liquidity position.

Agrawal (2002) has submitted a thesis named a study of deposit and investment position of Yeti Finance Company Limited where he made an attempt to determine the financial position and to analyze the trend of deposit and investment position of Yeti finance company limited for the period of five years. There was an increasing trend in financial position of yeti finance and as well there was maximum amount of deposit collection from fixed deposit. Likewise, total investment position to total deposit ratio of the company seems to be slightly diversified each year and the quick ratio of Yeti Finance was greater than standard ratio 2:1. Thus, he has suggested that Yeti Finance should sell the idle assets immediately to reduce the quick ratio and also this company needs to adopt right methods and procedures to increase the saving and current deposit.

Shrestha (2006) has conducted study about investment policy of joint venture banks with reference to four commercial banks consisting of Himalayan bank Ltd, Nepal SBI Bank Ltd, Everest Bank Ltd and Kathmandu Bank Ltd. His main objectives were to analyze and evaluate the investment policy and to examine the deposit collection and

effectiveness of fund mobilization of these commercial banks. After the completion of thesis, he found HBL is successful in mobilizing fund than other remaining commercial banks. Similarly, deposit collection and investment of all these banks were slightly poor. So, he has suggested that all these banks need to increase the deposit collection and should concentrate more on making investment in securities, shares and debentures. Also, all these banks should be established in rural areas to grab people attention and new technologies should be introduced to develop new banking system.

Bhandari (2008) has conducted study about investment policy of Nepal Bangladesh Bank Limited. In this study, the main objectives include determining investment of bank in priority sectors, analyzing utilization of deposit and examining position of nonperforming assets in the bank. After careful analysis, he has concluded that current ratios are not consistent to meet short term obligations and bank had not invested sufficient fund in government securities. Finally, he has suggested that bank should make investment of idle funds in various securities which will be helpful for bank to generate income and to minimize risk. Likewise, the bank should focus towards the management of nonperforming assets and should give more attention towards the immediate recovery of loan.

Amatya (2009) has conducted comparative study on investment policy of commercial banks and finance companies of Nepal. The main objectives were to determine relationship between profitability and assets structure and to analyze deposit utilization and investment of selected commercial banks and finance companies. After his hard work, he found that finance companies have successfully invested their deposit collection as loans and advances in comparison to commercial banks. Similarly, the trend value of net profit is in increasing trend and commercial banks have high net profit than finance companies. At the end, he has suggested that all these commercial banks need to implement sound investment plans and policies after detail analysis of causes and effects of the variables and they need to employ appropriate statistical, capital budgeting and financial tools to avoid doubtful risks and chance of occurrence of loss.

2.3 Research gap

Rastriya Banijya Bank is the second commercial bank of Nepal and has made significant contribution to increase the revenue of government and the business economy. As a result, the smooth operation of RBB is crucial. For such, RBB must have sound deposit collection and investment policy.

In this study, the researcher is trying to show clear picture of deposit collection and investment policy of RBB by applying various financial and statistical tools. Also, the researcher has made a valuable attempt to deliver the present issues, latest information and data for the completion of this study. Apart from that, the researcher has given more emphasized to solve the problem of financial or liquidity crisis by making proper presentation and analysis of subject matter along with suitable recommendations in this study. Thus, this study might add new dimensions towards improving the deposit and investment sectors of numerous commercial banks in Nepal.

CHAPTER III

RESEARCH METHODOLOGY

This chapter deals with methods and techniques to be employed in this study. It is the composition of two words i.e. research and methodology. It is the systematic method of finding solution to a problem which is mainly related with recording, analyzing, interpreting and reporting various information and facts related with this study. Mainly, it describes the methods and process to be applied for accomplishing objectives of the study. In this way, research methodology is the proper way to identify and implement appropriate methods and procedures in order to achieve the goals of the study.

3.1 Research design

It is the plan or strategy to carry out research work efficiently and effectively. In general, it is the overall scheme or program of the research. It includes the outline regarding what investor is trying to do from writing hypothesis and their operational implication to final analysis of data. It is also master plan specifying methods and procedures for collecting and analyzing the data and information while doing the research work.

To achieve the objectives of the study, case study research design has been used along with combination of descriptive and analytical approach. Apart from that, some financial and statistical tools have been applied to examine facts and descriptive techniques are used to evaluate deposit and investment of RBB.

3.2 Population and sample

There are all together 31 commercial banks operating in Nepal which are assumed to be the population of the study. But, it is not possible to study about all these commercial banks within this study. So, taking the total number of commercial banks as population of the study, only one commercial bank, namely Rastriya Banijya Bank (RBB) has been taken as a sample. For this study, convenience sampling method has been used as sample is drawn by personal convenience or judgment of the researcher.

3.3 Nature and sources of data

There are two sources to collect the data i.e. primary sources and secondary sources. This study rely more on secondary data. Here, few data are collected from personal interview and discussion with administrative officer and other staffs of RBB. But needed data and information related with deposit, investment, loans and advance are collected from balance sheet, annual report and profit and loss account of RBB. Similarly, supplementary data and information are collected from institution and regulating authorities such as NRB reports, bulletins, NEPSE, SEBON, economic survey, NPC, ministry of finance, economic journals, magazines, published and unpublished articles and other various websites.

3.4 Data collection procedures and techniques

All the data for the study have been collected from secondary sources as mentioned above. Mostly, all required data and information are collected from branch office of RBB which is in Amarsingh chowk, Pokhara and few data are collected from official websites of the bank. Similarly, NRB publications are collected from the websites of NRB. Existing literature on subject matter are collected from various research papers placed in library, western regional library, public library, PU library and so on. At first, necessary data are extracted from audited financial statements which are recorded in master sheet and then data are entered into spreadsheet to work out the financial ratios and necessary figures are prepared. After that all financial ratios are sorted out with the help of computer programs like Microsoft word, Microsoft excel, etc.

3.5 Data analysis tools

Presentation and analysis of data is the core part of research work. To achieve the objectives of the study, various financial and statistical tools have been used in this study. Like that, analysis of data is done according to pattern of data available in different fiscal year. In the outset, data are presented in tabular form along with its analysis and then financial and statistical tools are used to achieve the objectives of study. Beside this, graph chart, line graph, Karl Pearson coefficient of correlation and least square methods are adopted to analyze and interpret the findings of study. The main two tools used for data analysis are given below:

3.5.1 Financial tools

Such tools which are mainly used for analysis and interpretation of financial data is known as financial data tools. These tools can be used to get the precise knowledge of a business which in turn is fruitful to explore the strength and weakness of the financial policies and strategies. For the completion of thesis work, various financial tools are used for calculating and analyzing data which are as follows:

i) Loan recovery ratio

This ratio measures loan recovery made by RBB out of total loans and advances provided to the customers. Higher the ratio, better the financial position of bank. It is calculated as follows:

$$\text{Loan recovery ratio} = \frac{\text{Total loan recovery}}{\text{Loans and advances}}$$

ii) Return on total deposit

This ratio provides a test for profitability related to the deposit of bank. It also reveals how much the deposit collection in bank is efficiently utilized. It is calculated as follows:

$$\text{Return on total deposit} = \frac{\text{Net profit}}{\text{Total deposit}}$$

iii) Return on total investment

This ratio shows the return that bank has earned from its total investment made in different sectors. High return shows the better financial position of the bank. It is calculated as follows:

$$\text{Return on total investment} = \frac{\text{Net profit}}{\text{Total investment}}$$

iv) Growth ratio

It is directly related to fund mobilization and investment management of a commercial bank. It shows how the commercial banks are maintaining its economic and financial position. So, the higher ratio represents the better performance of bank and better opportunities to make investment in the future. In this study, the growth ratio of total deposit, loans and advances and loan recovery of RBB is calculated.

$$\text{Growth ratio} = \frac{\text{Current year value} - \text{Previous year value}}{\text{Previous year value}} \times 100$$

3.5.2 Statistical tools

Some important statistical tools have been used to present and analyze the data for achieving objectives of the study. Basically, mean (average), standard deviation, coefficient of variance, coefficient correlation analysis, least square, linear trend analysis have been used as a statistical tools in this study. The basic statistical tools are given below:

A. Arithmetic mean (average)

Average is a statistical constant which enable us to comprehend in a single effort the significance of the whole. It is the average value or the sum of all observation divided by the number of observation which is denoted by formula given below:

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

Where, \bar{X} = mean of values
 N = no of pair of observation
 $\sum X$ = sum of observation

B. Standard deviation

It measures the absolute dispersion. It is said that higher the value of standard deviation higher the variability and vice versa. It is defined as the positive square root of the mean of the square of deviations taken from the arithmetic mean. It is calculated as follows:

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

Where, $\sum (X - \bar{X})^2$ = $\sum X^2 - 2\bar{X}\sum X + N\bar{X}^2$
 N = number of observation

C. Variance

The square of the standard deviation is known as the variance. It is denoted by σ^2 . It is one of the statistical tools which are used to analyze the data for this study.

D. Coefficient of variation (C.V)

It is the percentage variation in mean, standard deviation being considered as the total variation in the mean. The relative measure based on standard deviation is known as coefficient of variation. It is independent of unit so two distributions can be compared with the help of CV for their variability. It is calculated as follows:

$$C.V. = \frac{\Sigma}{\bar{X}} \times 100\%$$

Where,

Σ = standard deviation

\bar{X} = average or mean

E. Coefficient of correlation analysis (r)

It identifies and interprets the relationship between two or more variables. It analyzes the relationship between those variables which are very helpful to formulate appropriate investment policy and strategy in the bank.

The Karl Pearson's coefficient of correlation has been used in this study. It always lies between -1 to + 1. The value of correlation with plus sign shows perfect positive correlation between two variables and value with minus sign perfect negative correlation between two variables. If it is zero, it is said there is no relationship between two variables. Here, it is used to determine the correlation relationship between deposit and loans and advance, investment and loans and advance, deposit and investment and investment and net profit. It is expressed as follows:

$$r = \frac{\sum \frac{dx \cdot dy}{\sqrt{N} \cdot \sqrt{\sum \frac{dx^2}{N} \cdot \sum \frac{dy^2}{N}}}$$

F. Probable error (P.E)

The probable error denoted by P.E is used to measure the reliability and test the significance of correlation coefficient. Significance of relationship has been tested by using the probable error (P.E) which can be expressed as follows:

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

Where,

r = value of correlation coefficient

n = number of pairs of observation

G. Trend analysis

A widely and most commonly method to describe the trend is least square method. Like that, trend analysis of various deposit composition have been made in this study.

The general eqⁿ used for linear trend is given below:

$$y = a + bx$$

Where,

y = dependent variable.

x= Independent variable.

a = y intercept.

b = slope of the trend line.

In the above model:

$$a = \frac{\sum Y}{n} - b \frac{\sum X}{n} \quad b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

3.6 Limitations of the methodology

Every research has its own limitations. Similarly in this study, there are certain limitations while using various methods and techniques which are as follows:

1. This is a case study which is completed by the use of case study research design. So it is bounded by its own methodology.
2. There are 31 commercial banks operating in the country but only a single unit of the population is taken for the study. Therefore, the study may not be able to represent the whole scenario of commercial bank related with this topic.
3. Convenience sampling method is used to draw the sample, which is not free from the criticism. So, it also imposes to draw the line of limitation.
4. Different tools are used to analyze the collected data, which are based on certain assumptions. So, reliability of the analysis depends upon the circumstances on which the model is based.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with presentation, analysis and interpretation of relevant data of RBB in order to achieve the objectives of the study. It is an important part of the research study. Basically, analysis of data consists of organizing data by tabulating and then placing that data in presentable form by using figures and tables. In this study, data and information are presented and analyzed using different financial and statistical tools. Finally, major findings of study have been drawn after completing the analysis of data.

4.1 Analysis of deposit composition of RBB

Deposits are the main source of income for commercial bank. Without collecting deposit, bank cannot run smoothly. In general, bank collect scattered funds from the public in the form of deposit and mobilize it for generating profit. So, the success of any bank depends upon its ability to attract deposit for long period of time. Similarly, RBB has collected various deposits which are mainly divided as saving, fixed, current and other deposits. In this study, the researcher has made an attempt to examine the deposit composition of RBB for the period of five years. The deposit collections of RBB from F.Y 2063/064 to F.Y. 2067/068 are presented in table 4.1.

Table: 4.1

Deposit Composition of RBB

(In millions)

Year	Saving	%	Fixed Deposit	%	Current Deposit	%	Other Deposit	%	Total
2063/064	36872.69	73.06	1524.78	3.02	10284.67	20.38	1781.99	3.54	50464.13
2064/065	38264.7	66	4681.05	8.08	12684.12	21.88	2340.97	4.04	57970.84
2065/066	34682.16	50.93	5152.46	7.57	26849.76	39.43	1411.31	2.07	68095.69
2066/067	39464.19	57.5	6281.56	9.16	18748.16	27.32	4129.25	6.02	68623.16
2067/068	45124.66	61.04	4124.89	5.58	20648.12	27.93	4026.41	5.45	73924.08
Mean		61.70		6.68		27.39		4.22	

Source: RBB Annual Report

Table 4.1 shows compositions of different types of deposit of RBB from F.Y 2063/064 to F.Y 2067/068. From the table, it is clear that saving deposit collection percentage has decreased from F.Y 2063/064 to 2065/066 followed by increasing trend till F.Y 2067/068. The highest percentage of saving deposit in RBB is 73.06 percent in F.Y 2063/064 whereas lowest percentage of saving deposit in RBB is 50.93 percent in F.Y 2065/066. From the above figure, the deposit collection percentage of saving deposit on an average is 61.70 percent which is very high than rest of the deposits. It shows that bank is collecting more revenue from saving deposit.

Similarly, the highest percentage of fixed deposit collection is 9.16 percent in F.Y 2066/067 and lowest percentage of fixed deposit collection is 3.02 percent in F.Y 2063/064. It indicates that the ratio of fixed deposit in RBB is very low due to which bank is not getting enough opportunities to make an investment. Every year, percentage of fixed deposit collection is low which is not good for bank to generate higher revenue or profit from their investment. The average fixed deposit collection of RBB is 6.68 percent which shows that bank should give more attention to increase fixed deposit in the bank.

Likewise, percentage of current deposit is better every year with value of 20.38 percent, 21.88 percent, 39.43 percent, 27.32 percent and 27.93 percent respectively from F.Y 2063/064 to F.Y 2067/068. The bank is maintaining good current deposit which is also the current liabilities for the bank. There is an increasing trend of current deposit from F.Y. 2063/064 to F.Y. 2065/066 but again it has decreased with almost same percentage of deposit in F.Y 2066/067 and F.Y 2067/068. The mean ratio of current deposit is 27.39 percent which enhance strong liquidity position of the bank.

Finally, other deposit which includes call deposit, karma yogi deposit, maha laxmi deposit and chuna muna deposit shows there is a fluctuation in collection of other deposits every year. It is high in F.Y 2066/067 with 6.02 percent and it is low in F.Y 2065/066 with 2.07 percent. The average collection of various kinds of deposit is 4.22 percent which shows satisfactory performance of RBB throughout the study period.

The deposit compositions of RBB are presented in figure 4.1.

Figure: 4.1
Deposit Composition of RBB

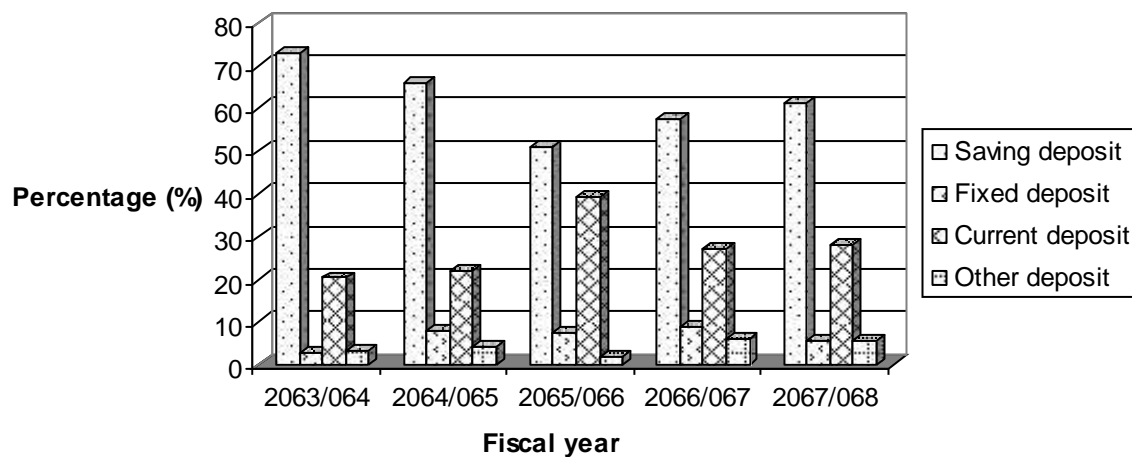


Figure 4.1 shows maximum amount is collected by RBB from saving deposit. According to rank wise, after saving deposit, RBB has collected more amounts from current deposit, fixed deposit and other kinds of deposit respectively.

4.1.1 Growth rate of total deposit

The growth rate of total deposit is calculated to find out change in deposit of RBB for the period of five years. The calculated growth rates are shown in table 4.2.

Table: 4.2
Growth Rate of Total Deposit

Fiscal year	Total deposit	Ratio (In %)
2063/064	50464.13	9.24
2064/065	57970.84	14.87
2065/066	68095.69	17.46
2066/067	68623.16	0.77
2067/068	73924.08	7.72
Mean		10.01
S.D		5.84
C.V		58.34

Source: RBB Annual Report

In table 4.2, there is an increasing trend of total deposit of RBB during the study period of five years starting from F.Y 2063/064 to F.Y 2067/068. The highest amount of deposit collected by RBB is Rs 73924.08 million in F.Y 2067/068 whereas lowest amount collected by RBB is Rs 50464.13 million in F.Y 2063/064. Likewise, the growth rates of total deposit are 9.24 percent, 14.87 percent, 17.46 percent, 0.77 percent and 7.72 percent respectively during the study period of five years. As we see, the growth rate is in increasing trend from F.Y 2063/064 to F.Y 2065/066 but it has decreased sharply in F.Y 2066/067. Again, the growth rate has increased in F.Y 2067/068 which shows consistent effort of bank in collecting deposit throughout the study period. The mean ratio is 10.01 percent which shows bank is successful enough to collect high deposit from customer all the time. But, the coefficient of variation is 58.34 percent which is very high as it measures the level of risk involved while collecting deposit from customer. So, the bank needs to adopt appropriate policy to increase the deposit collection in coming days. The growth of total deposit is presented in figure 4.2.

Figure: 4.2

Growth of Total Deposit and Trend Line

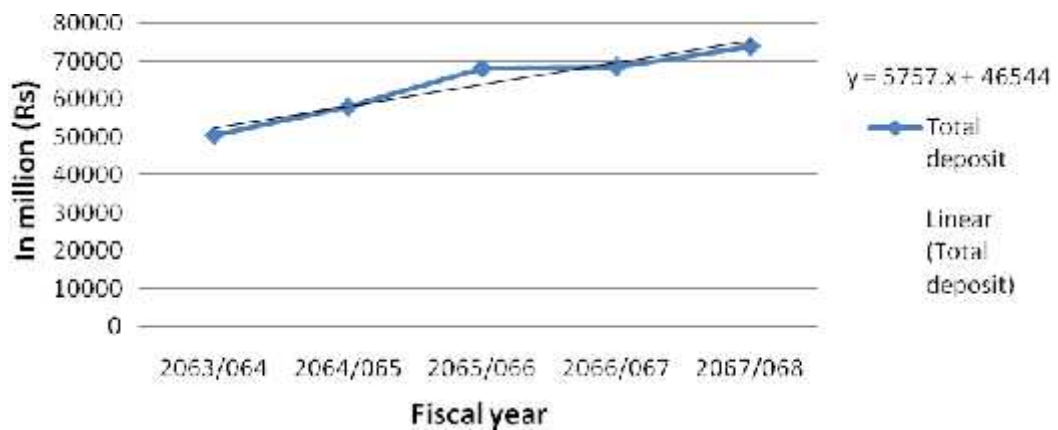


Figure 4.2 shows increasing trend of total deposit of RBB from F.Y 2063/064 to F.Y 2067/068. While making trend analysis of total deposit of RBB, the trend line is rising upward throughout the study period. As we see, the value of intercept (a) is Rs 46544 million and the slope of line (b) is Rs 5757 million. Since the slope is positive and the trend line is rising upward, the bank has high chance to collect more deposit in the future.

4.2 Trend analysis of deposit

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make prediction of one variable on the basis of other variable. In this study, trend analysis of different deposits is presented to predict deposit position of RBB in the future. Here, least square method is used for the trend analysis of saving deposit, fixed deposit, current deposit and other deposits of RBB from F.Y. 2063/064 to F.Y 2067/068.

4.2.1 Trend analysis of saving deposit

The trend analysis helps to forecast the saving deposit that RBB can collect in coming years. The amount of saving deposit for the period of five years is shown in table 4.3.

Table: 4.3
Amount of Saving Deposit

(In millions)

Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Saving deposit	36872.69	38264.7	34682.16	39464.19	45124.66

Source: RBB Annual Report

Table 4.3 shows amount of saving deposit from F.Y 2063/064 to F.Y 2067/068. The amount of saving deposit of RBB has increased from F.Y 2063/064 to F.Y 2064/065 but it has decreased in FY 2065/066. After that again, the amount has increased from F.Y 2065/066 to F.Y 2067/068. The amount of saving deposit of RBB is plotted in the trend line which is shown in figure 4.3.

Figure: 4.3

Amount of Saving Deposit and Trend Line

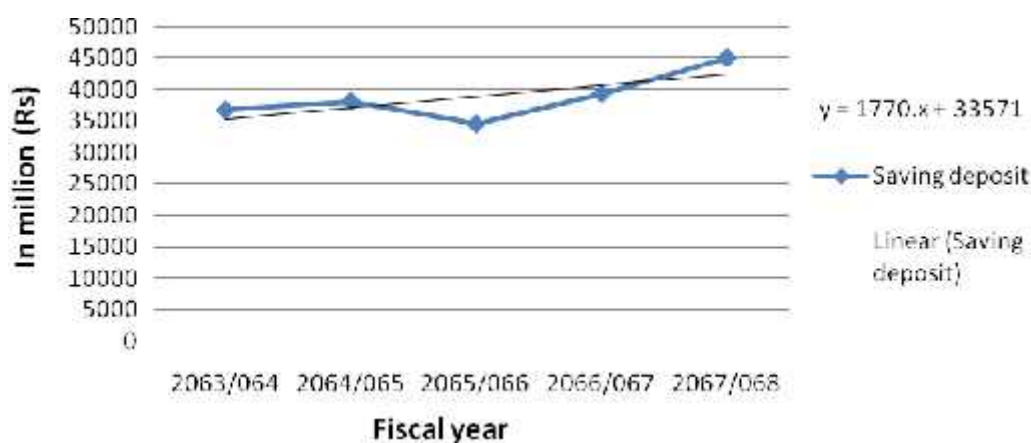


Figure 4.3 shows amount of saving deposit of RBB in a straight line called least square trend line. As we see, the value of intercept (a) is Rs 33571 million and the value of slope (b) is Rs 1770 million. Similarly, x is an independent variable by which the predicted value of dependent variable i.e. Y is calculated. So, higher the value of slope, higher will be the predicted amount of saving deposit of RBB. Since, the slope of trend line is positive and the trend line is rising upward, the bank has strong chance of earning high saving deposit in the future.

4.2.2 Trend analysis of fixed deposit

Here, the amount of fixed deposit of RBB for the period of five years is shown in table 4.4.

Table: 4.4
Amount of Fixed Deposit

		(In millions)				
Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068	
Fixed deposit	1524.78	4681.05	5152.46	6281.56	4124.89	

Source: RBB Annual Report

Table 4.4 shows amount of fixed deposit of RBB which is in increasing trend from F.Y 2063/064 to F.Y 2066/067, but there is a sudden decrease in amount in F.Y 2067/068. The bank is unable to collect high amount from fixed deposit. The amount of fixed deposit of RBB is plotted in the trend line which is shown in figure 4.4.

Figure: 4.4
Amount of Fixed Deposit and Trend Line

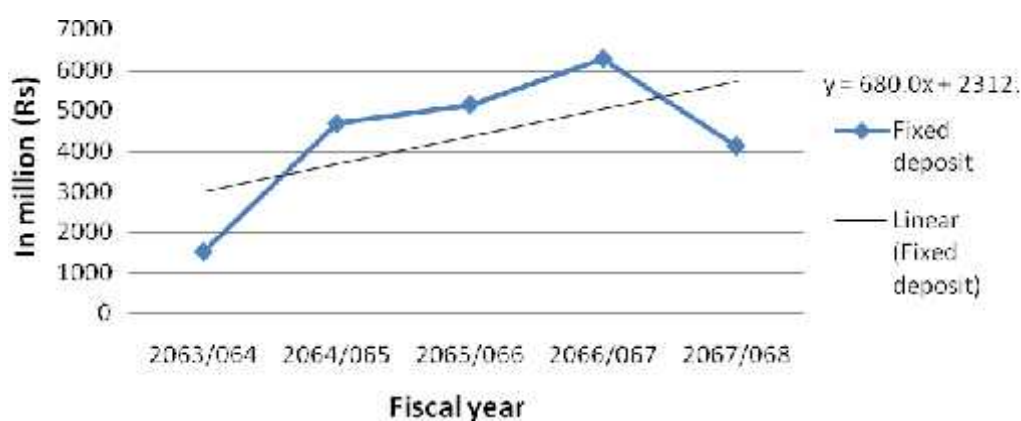


Figure 4.4 shows increasing trend of fixed deposit for the first four years followed by decrease in amount in the last year. The value of intercept (a) is Rs 2312 million and the value of slope (b) is Rs 680 million. Since, the slope of trend line is positive and the trend line is rising upward, there is a good chance for RBB to collect high fixed deposit in the future.

4.2.3 Trend analysis of current deposit

Nowadays, current deposit is considered as current liabilities for any commercial banks. The amount of current deposit of RBB for the period of five years is shown in table 4.5.

Table: 4.5
Amount of Current Deposit

Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Current deposit	10284.67	12684.12	26849.76	18748.16	20648.12

Source: RBB Annual Report

Table 4.5 shows amount of current deposit of RBB for the period of five years. In the beginning, there is an increasing trend of current deposit but it has decreased in F.Y 2066/067 and again it has increased in F.Y 2067/068. The amount of current deposit of RBB is plotted in the trend line which is shown in figure 4.5.

Figure: 4.5
Amount of Current Deposit and Trend Line

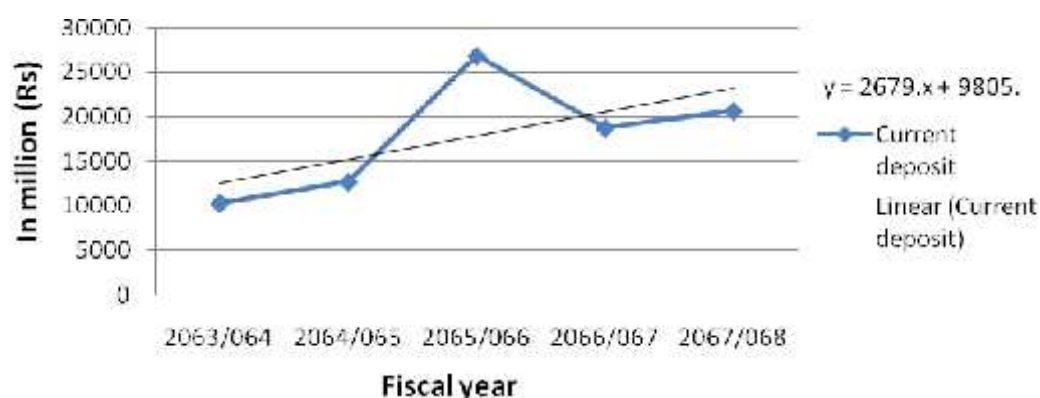


Figure 4.5 shows amount of current deposit in a straight line called least square trend

line. The value of intercept (a) is Rs 9805 million and the value of slope (b) is Rs 2679 million. The value of b shows change in dependant variable (y) by one unit increase or decrease in independent variable (x). Since, the slope of trend line is positive and the trend line is rising upward every year, the bank has very good chance to earn high current deposit in the future. It also shows the better performance of RBB while making collection of current deposit.

4.2.4 Trend analysis of other deposits

Here the amount of other deposits from F.Y 2063/064 to F.Y 2067/068 is shown in table 4.6.

Table: 4.6
Amount of Other Deposits

Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Other deposits	1781.99	2340.97	1411.31	4129.25	4026.41

(In millions)

Source: RBB Annual Report

Table 4.6 depicts amount of other various deposits of RBB from F.Y 2063/064 to F.Y 2067/068. It shows that amount of other deposits is in fluctuating trend throughout the study period. The amount of other deposits of RBB is plotted in the trend line that is exhibited in figure 4.6.

Figure: 4.6

Amount of Other Deposits and Trend Line

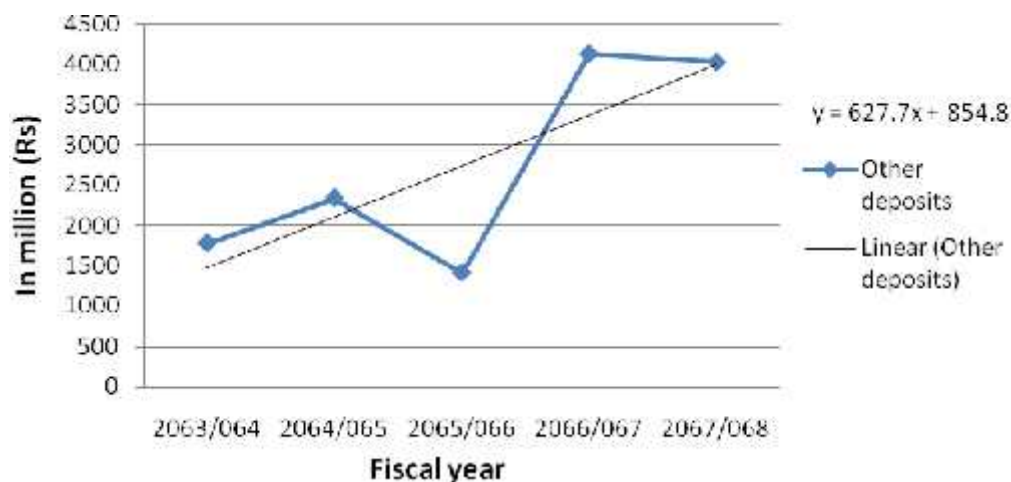


Figure 4.6 shows fluctuating trend of other deposit of RBB throughout the study period of five years. The value of intercept (a) is Rs 854.8 million and the value of slope (b) is Rs 627.7 million. Since the slope of trend line is positive and the trend line is rising upward, the RBB has better chance to collect high amount of other deposits in the future.

In brief, while making trend analysis of deposit, the bank has good chance to collect high saving, fixed, current and other deposits in the future. It shows good performance of RBB throughout the study period.

4.3.1 Analysis of sector wise investment of RBB

It is necessary to analyze the total investment made by any commercial bank. The commercial bank makes investment in different sectors and earns reasonable profit every year. Similarly, RBB also makes investment in various areas but it maximizes the chances of earning profit by mainly providing loans and advances to the customers. The bank relies heavily on loans and advances than any other forms of investment.

As we know, lending is the essential function of commercial banking. By providing more loans and advances, the bank can create more opportunities to earn interest from customers. But, there should be effective lending policies while granting loans and advances to the customers. The formulation and implementation of lending policies are the most important responsibilities of bank directors and management. The lending policies should be carefully analyzed and it should be properly implemented. Similarly, the bank must ensure that credit can be collected in proper time from all borrowers without undertaking any action against them. So, while providing loans and advances to customers, the bank needs to minimize the risk as much as possible. From the bank point of view, it should not bear any losses after providing loans and advances to the customers.

In this study, the researcher is trying to analyze the investment made by RBB in various sectors. After careful analysis, the bank can identify whether to increase investment in the future or not.

The sector wise investment made by RBB is shown in table 4.7.

Table: 4.7
Sector wise Investment

(In millions)

S.No	Investment	2063/064	%	2064/065	%	2065/066	%	2066/067	%	2067/068	%	Mean
1	Real estate loan	1258.69	4.24	3158.69	7.5	2168.49	4.59	1780.07	3.66	1790.23	3.43	4.68
2	Home/housing loan	2615.89	8.82	2986.12	7.09	3025.69	6.4	3110.96	6.39	3151.61	6.04	6.95
3	Marginal loan	781.62	2.64	452.17	1.07	694.16	1.47	794.69	1.63	563.47	1.08	1.58
4	Term loan	1168.16	3.94	2684.92	6.39	2458.19	5.2	1941.33	3.99	2027.04	3.88	4.68
5	OD loan/TR loan/WC loan	10258.16	34.59	12684.19	30.15	14158.69	29.97	16339.33	33.56	17583.01	33.68	32.39
6	Other loans	923.93	3.12	5558.82	13.22	9101.73	19.27	11726.13	24.08	11750.72	22.52	16.44
7	Other investment	12650.15	42.65	14543.14	34.58	15643.05	33.1	12989.46	26.69	15333.16	29.37	33.28
	Total	29656.6	100	42068.05	100	47250	100	48681.97	100	52199.24	100	

Source: RBB Annual Report

Table 4.7 depicts sector wise investment made by RBB from F.Y.2063/064 to F.Y. 2067/068. It shows maximum percentage of investment is made in other investment sectors such as government securities, local bank, non government institution etc. In F.Y 2063/064, the maximum percentage of investment is 42.65 percent made in other investment areas and minimum percentage of investment is 2.64 percent made in marginal loan. Similarly, in F.Y 2064/065 and F.Y 2065/066, the maximum percentages of investment are made in other investment areas i.e. 34.58 percent and 33.10 percent respectively whereas minimum percentages of investment are made in marginal loan i.e. 1.07 percent and 1.47 percent respectively. Likewise, in F.Y 2066/067 and 2067/068, the maximum percentages of investment are 33.56 percent and 33.68 percent made in overdraft, trust receipt and working capital. On the basis of mean, the maximum portion of investment is made in other investment areas i.e. 33.28 percent and second largest investment i.e. 32.39 percent is made in overdraft, trust receipt and working capital. Similarly, disbursing loan in other different sectors

is third highest according to rank wise i.e. 16.44 percent. The minimum portion of investment is made in marginal loan which is only 1.58 percent in comparison to other sectors. It shows lack of attention of bank while providing loan as marginal loan. The sector wise investment of RBB is presented in figure 4.7.

Figure: 4.7
Sector wise Investment

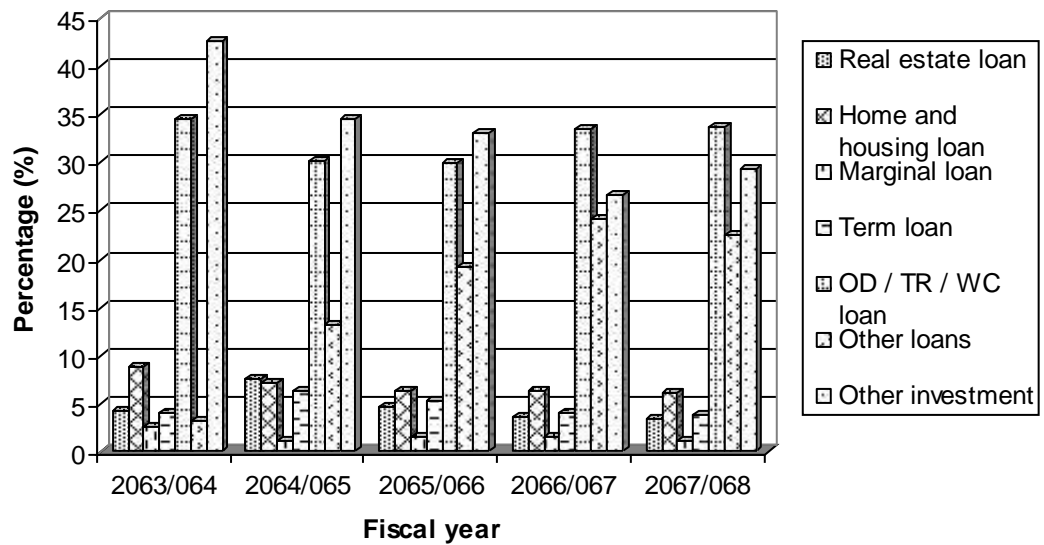


Figure 4.7 shows maximum investment is made in other various sectors such as government securities, local bank and non government institutions. According to rank wise, after investment in other sectors, RBB has offered OD loan, other loans, home and housing loan, real estate loan, term loan and marginal loan. Similarly, the trend analysis of total investment is shown in figure 4.8.

Figure: 4.8
Amount of Investment and Trend Line

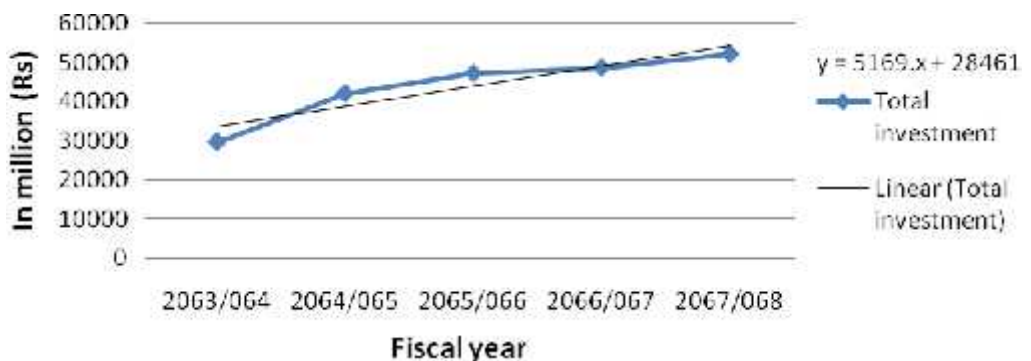


Figure 4.8 shows amount of investment in a straight line called least square trend line. The value of intercept (a) is Rs 28461 million and the value of slope (b) is Rs 5169 million. As the slope of trend line is positive and the trend line is rising upward, the bank has good chance to earn high profit from investment in the future. So, it's suitable for bank to make more investment which maximizes the chance of earning high profit.

4.4 Trend analysis of sector wise investment

As we know, RBB has made investment in different sectors and has earned sufficient return all the time. So, the trend analysis helps to measure the chance of RBB to expand investment or to reduce investment in the future. Without making trend analysis of investment, RBB cannot decide whether to invest their fund in different sectors or not. So, least square method is used for the trend analysis of real estate loan, home and housing loan, marginal loan, term loan, OD loan and other various kinds of loans and investment made by RBB from F.Y. 2063/064 to F.Y 2067/068.

4.4.1 Trend analysis of real estate loan

The loan provided by bank to the customers by pledging real property as collateral is known as real estate loan. This kind of loan is very common nowadays in Nepal. The amount of five years period of real estate loan from F.Y 2063/064 to F.Y 2067/068 is shown in table 4.8.

Table: 4.8
Amount of Real Estate Loan

Fiscal Year	(In millions)				
	2063/064	2064/065	2065/066	2066/067	2067/068
Real estate loan	1258.69	3158.69	2168.49	1780.07	1790.23

Source: RBB Annual Report

Table 4.8 shows amount of real estate loan provided by RBB from F.Y 2063/064 to F.Y 2067/068. The real estate loan has increased in F.Y 2064/065 from Rs 1258.69 million to Rs 3158.69 million. Again, it has decreased in next year followed by increasing trend till F.Y 2067/068.

The amount of real estate loan of RBB is plotted in the trend line that is exhibited in figure 4.9.

Figure: 4.9

Amount of Real Estate Loan and Trend Line

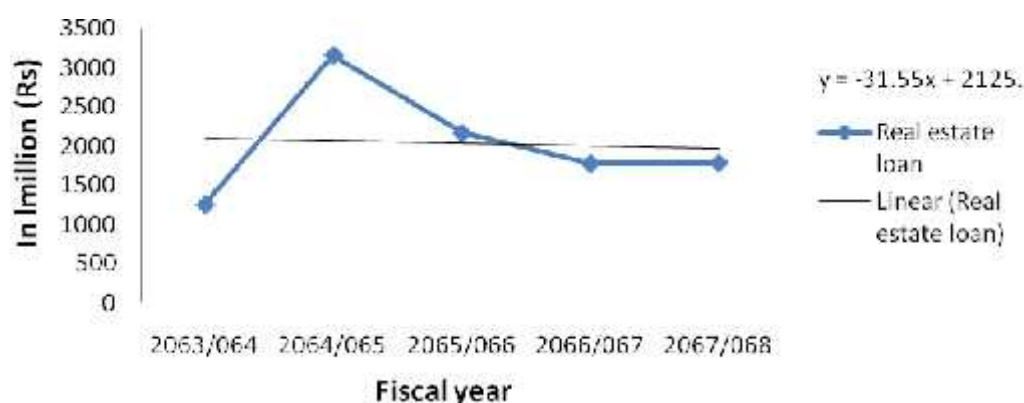


Figure 4.9 shows amount of real estate loan in a straight line called least square trend line. The value of intercept (a) is Rs 2125 million and the value of slope (b) is negative. As the slope of trend line is negative and the trend line is falling down, it's not better for RBB to expand real estate loan in the future. Thus, it is not suitable for RBB to provide loan as real estate in the future.

4.4.2 Trend analysis of home and housing loan

Here, the amount of home and housing loan from F.Y 2063/064 to F.Y 2067/068 is shown in table 4.9.

Table: 4.9

Amount of Home and Housing Loan

Fiscal Year	(In millions)				
	2063/064	2064/065	2065/066	2066/067	2067/068
Home and housing loan	2615.89	2986.12	3025.69	3110.96	3151.61

Source: RBB Annual Report

Table 4.9 shows increasing trend of home and housing loan for the period of five years starting from F.Y 2063/064 to F.Y 2067/068. The highest home and housing loan offered by RBB is Rs 3151.61 million in F.Y 2067/068 and the lowest home and housing loan offered by RBB is Rs 2615.89 million in F.Y 2063/064. The amount of

home and housing loan of RBB is plotted in the trend line that is exhibited in figure 4.10.

Figure: 4.10

Amount of Home and Housing Loan and Trend Line

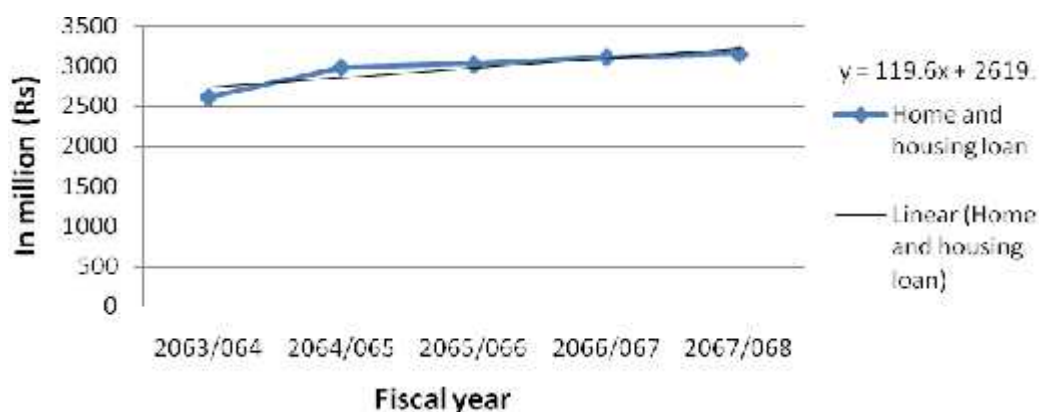


Figure 4.10 shows amount of home and housing loan of RBB in a straight line called least square trend. The value of intercept (a) is Rs 2619 million and the value of slope (b) is Rs 119.6 million. As the slope of trend line is positive and the trend line is rising upward, the bank can provide more home and housing loan to the customer. Overall, it will be beneficial for bank to provide more home and housing loan in the future.

4.4.3 Trend analysis of marginal loan

Here, the amount of marginal loan from F.Y 2063/064 to F.Y 2067/068 is shown in table 4.10.

Table: 4.10

Amount of Marginal Loan

	(In millions)				
Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Marginal loan	781.62	452.17	694.16	794.69	563.47

Source: RBB Annual Report

In table 4.10, the marginal loan provided by RBB has decreased in F.Y 2064/065 but again it has increased till F.Y 2066/067. At the end of study period, again there is a decline in value of marginal loan offered by RBB.

The amount of marginal loan of RBB is plotted in the trend line that is exhibited in figure 4.11.

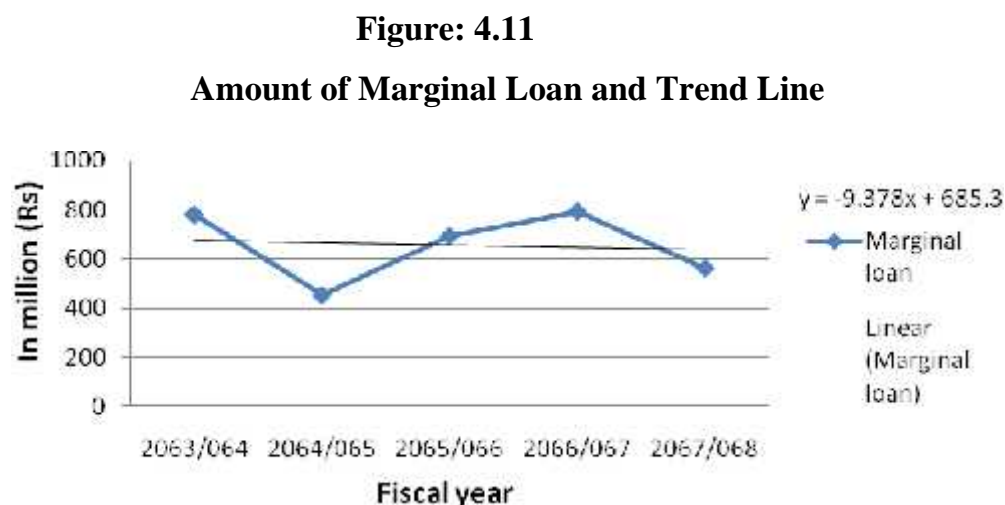


Figure 4.11 shows amount of marginal loan provided by RBB from F.Y 2063/064 to F.Y 2067/068. From least square trend line, the value of intercept (a) is Rs 685.3 million and the value of slope (b) is negative. As the slope of trend line is negative and the trend line is going downward, RBB has limited opportunity to earn high interest from the marginal loan provided to customers.

4.4.4 Trend analysis of term loan

A loan provided by bank that has a specified repayment schedule and a floating interest rate is known as term loan. Term loans always mature between one and 10 years. Here, the amount of five years period of term loan from F.Y 2063/064 to F.Y 2067/068 is shown in table 4.11.

Table: 4.11
Amount of Term Loan

	(In millions)				
Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Term loan	1168.16	2684.92	2458.19	1941.33	2027.04

Source: RBB Annual Report

In table 4.11, the term loan provided by RBB has increased in F.Y 2064/065 from initial year. After that, the trend value has decreased from F.Y 2064/065 to F.Y 2066/067 but again it has increased at the end of study period. The amount of term

loan of RBB is plotted in the trend line that is exhibited in figure 4.12.

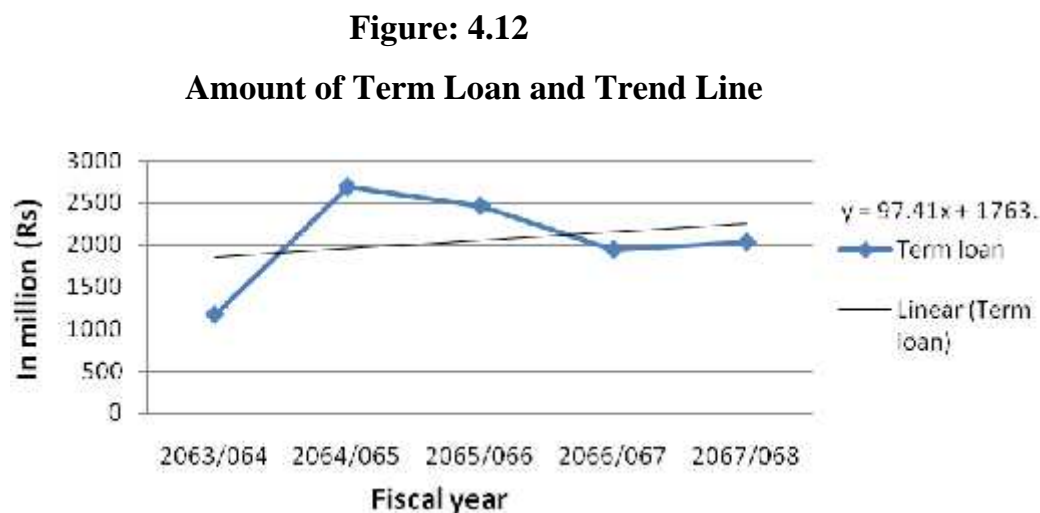


Figure 4.12 shows amount of term loan provided by RBB from F.Y 2063/064 to F.Y 2067/068. Here, the value of intercept (a) is Rs 1763 million and the value of slope (b) is Rs 97.41 million. Since, the slope of trend line is positive and the trend line is rising upward, RBB has good chance to expand term loan to customers in the future.

4.4.5 Trend analysis of OD, trust receipt and working capital loan

An overdraft loan is a financial agreement, where money can be withdrawn from a bank account even when the balance reaches below zero mark. Similarly, a loan provided by bank to finance daily operations of any particular company is known as working capital loan. Like that, the loan in which the bank retains title to the collateral of borrower while providing loans is known as trust receipt loan. The amount of five years period of OD, trust receipt and working capital loan is shown in table 4.12.

Table: 4.12
Amount of OD, Trust Receipt and Working Capital Loan

(In millions)

Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
OD, trust receipt and working capital loan	10258.16	12684.19	14158.69	16339.33	17583.01

Source: RBB Annual Report

Table 4.12 shows increasing trend of OD, trust receipt and working capital loan of

RBB from F.Y 2063/064 to F.Y 2067/068. It shows bank is providing more OD, trust receipt and working capital loan to their borrower every year. So, RBB wants to earn high interest from these three kinds of loans which is a good sign for future growth and development of the bank. The amount of OD, trust receipt and working capital loan of RBB is plotted in the trend line that is exhibited in figure 4.13.

Figure: 4.13

Amount of OD, Trust Receipt and Working Capital Loan and Trend Line

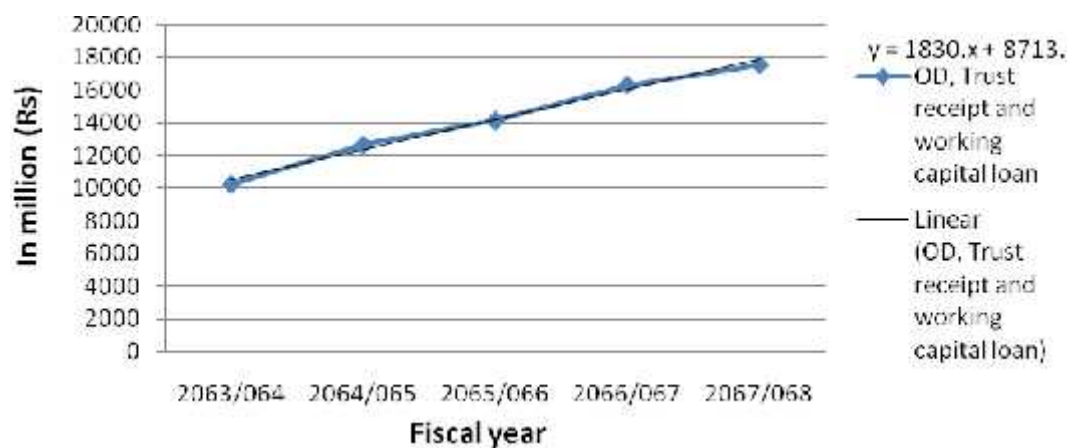


Figure 4.13 shows increasing trend of OD, trust receipt and working capital loan throughout the study period. The value of intercept (a) is Rs 8713 million and the value of slope (b) is Rs 1830 million. As the slope of trend line is positive and the trend line is rising upward, RBB has better chance to expand these three kinds of loans in the future. Also, RBB can earn high interest from these three kinds of loans than any other loans.

4.4.6 Trend analysis of other different loans

RBB also provides other various loans which includes education loan, deprived sector loan, auto loan and export loan. The bank is constantly providing these kinds of loans to the customers and it is earning high interest from the loans provided to the customers.

The amount of five years period of other different loans from F.Y 2063/064 to F.Y 2067/068 is shown in table 4.13.

Table: 4.13
Amount of Other Different Loans

Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Other different loans	923.93	5558.82	9101.73	11726.13	11750.72

Source: RBB Annual Report

Table 4.13 depicts that there is an increasing trend of other different loans provided by RBB for the period of five years. It shows RBB is providing more other loans such as education loan, auto loan, and export loan. The amount of other different loans of RBB is plotted in the trend line that is exhibited in figure 4.14.

Figure: 4.14
Amount of Other Different Loans and Trend Line

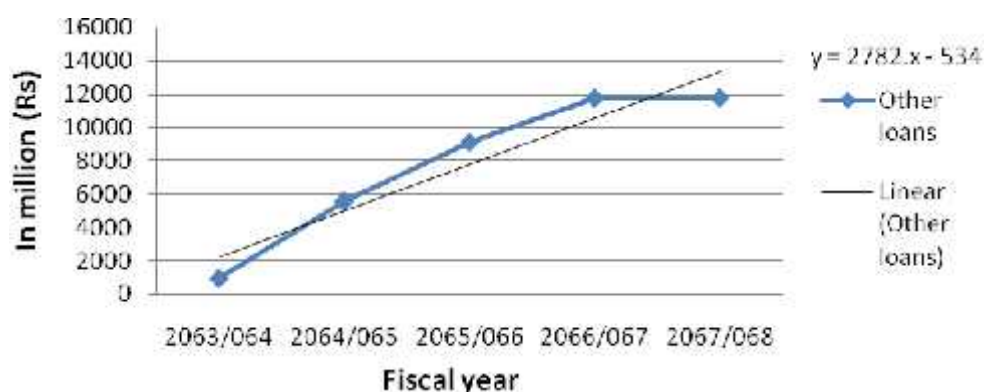


Figure 4.14 shows increasing trend of other various kinds of loans provided by Rastriya Banijya Bank. From least square trend line, the slope of line (b) is Rs 2782 million and the value of intercept is negative. As the slope of trend line is positive and the trend line is rising upward, the bank has high chance to earn interest from other loans that will be offered to borrower in the future.

4.4.7 Trend analysis of other investment

4.4.7.1 Trend analysis of government securities

Nowadays, every commercial bank makes investment in various government securities. Such securities are free of risk and provide high return to the bank without losing its value for a long period of time. The amount of investment made by RBB in government securities for the period of five years is shown in table 4.14.

Table: 4.14
Investment in Government Securities

Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Government securities	9268.5	10220.3	10550.6	9665.3	12686.5

(In millions)

Source: RBB Annual Report

Table 4.14 shows increasing trend of government securities from F.Y 2063/064 to F.Y 2065/066. After that, its value has decreased in F.Y 2066/067 followed by increase in value in F.Y 2067/068. It shows bank is making more investment in government securities during the period of five years. The government securities are reliable and free of risk and it provides high return to bank in the financial markets. The amount of government securities of RBB is plotted in the trend line which is shown in figure 4.15.

Figure: 4.15

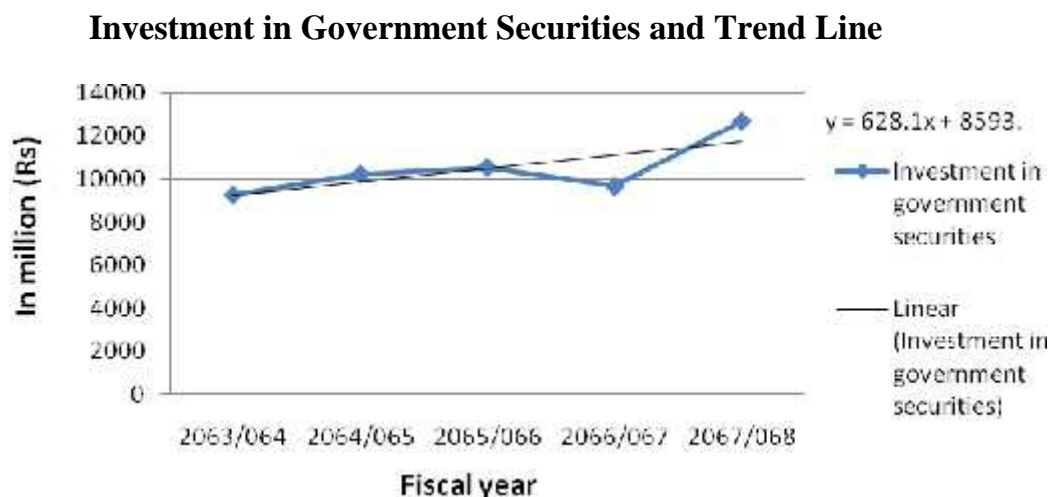


Figure 4.15 shows amount of investment made in government securities from F.Y 2063/064 to F.Y 2067/068. The value of intercept (a) is Rs 8593 million and the value of slope (b) is Rs 628.1 million. Since the slope of trend line is positive and the trend line is rising upward, there is a good chance for RBB to earn high income from investment made in government securities in the future.

4.4.7.2 Trend Analysis of investment in local bank

RBB has made investment in various local banks operating in different parts of Nepal. From such investment, RBB is earning reasonable profit which is needed for the expansion and growth of the bank. These days, all commercial banks are investing their money in various local banks and they are creating more opportunities to earn income from such investment. The amount of investment made in local bank for the period of five years is shown in table 4.15.

Table: 4.15
Investment in Local Bank

(In millions)

Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Local bank	1121.3	1782.36	2268.3	1425.6	986.5

Source: RBB Annual Report

Table 4.15 shows increase in amount of investment made in local bank from F.Y 2063/064 to F.Y 2065/066. After that, its value has decreased till F.Y 2067/068. The amount of investment made in local bank is plotted in the trend line which is shown in figure 4.16.

Figure: 4.16
Investment in Local bank and Trend Line

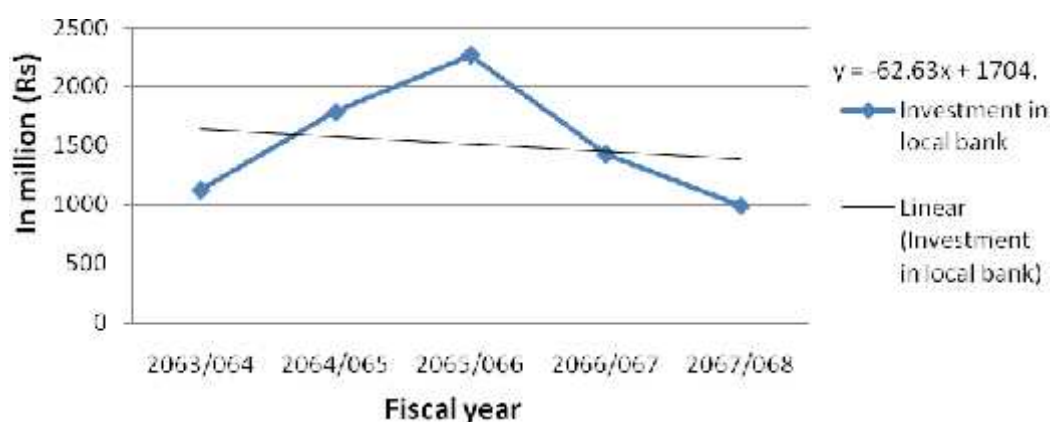


Figure 4.16 shows amount of investment made in local bank by RBB for the period of five years. It also reveals the fact that RBB doesn't want to make more investment in

various local banks of the nation. The value of intercept (a) is Rs 1704 million and the value of slope is negative. As the slope of trend line is negative and the trend line is falling, it's not better for RBB to make investment in local bank in the future. Also, RBB may suffer loss from investment made in local bank.

4.4.7.3 Trend analysis of investment in shares and non government institution

Every commercial bank makes investment in shares of various companies and they also invest in non government institution. Similarly, RBB also maximizes profit by making investment in shares and non government institution. The amount of investment made in shares and non government institution for the period of five years is shown in table 4.16.

Table: 4.16
Investment in Shares and Non Government Institution

(In millions)					
Fiscal Year	2063/064	2064/065	2065/066	2066/067	2067/068
Shares and non government institution	2260.35	2540.48	2824.15	1898.56	1660.16

Source: RBB Annual Report

Table 4.16 shows increasing trend of investment in shares and non government institution from F.Y 2063/064 to F.Y 2065/066. After that, the amount has decreased till F.Y 2067/068. So, the bank is constantly making investment in shares and non government institution and earning sufficient income from such investment. These days, all commercial banks are realizing about the importance of making investment in shares and non government institution.

The amount of investment in shares and non government institution is plotted in the trend line which is shown in figure 4.17.

Figure: 4.17

Investment in Shares and Non Government Institution and Trend Line

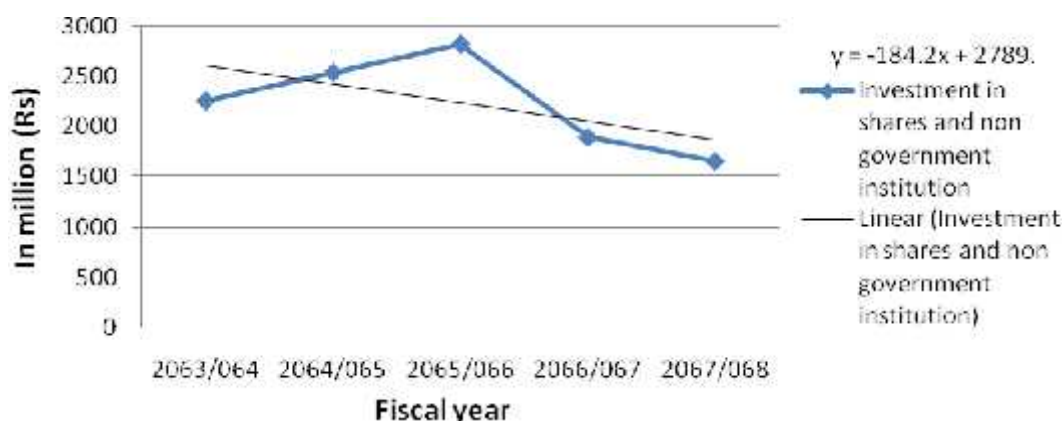


Figure 4.17 shows amount of investment made by RBB in shares and non government institution for the period of five years. From least square trend line, the obtained value of intercept (a) is Rs 2789 million and the value of slope (b) is negative. Since, the slope of trend line is negative and the trend line is falling, it's not profitable for RBB to make investment in shares and non government institution.

Overall, while making trend analysis of investment of RBB, it's better to make investment in government securities and also it is profitable to offer OD, trust receipt and working capital loan, home and housing loan, term loan and other different loans. But, it's not better for RBB to make investment in local bank, shares and non government institution and also it is not profitable to offer marginal and real estate loan.

4.5 Analysis of loan recovery position of RBB

As we know, it is very important for every commercial bank to recover loans from their customer at proper time. If they fail to collect money from their customer on regular basis, then bank may face the problem of bankruptcy. Also, bank may lose reputation due to which customer doesn't want to deposit money in bank. So, the bank may suffer heavy loss if they fail to collect loan from customer at right time. Here, the ratio of loan recovery to total loan and advances depicts amount of recovery made by bank each year. It measures efficiency of bank in collection of loan. It is calculated by dividing loan recovery by total loans and advances. The calculated ratios are shown in table 4.17.

Table: 4.17

Loan Recovery Ratio

(In millions)

Fiscal year	Loan recovery	Total loans and advances	Ratio (in %)
2063/064	1679.37	17006.46	9.87
2064/065	1498.72	27524.92	5.44
2065/066	1021.23	30606.96	3.34
2066/067	1068.54	35692.51	2.99
2067/068	1128.68	36866.104	3.06
Mean			4.94
S.D			2.62
C.V			53.11

Source: RBB Annual Report

In table 4.17, the loan recovery amount of RBB is in decreasing trend from F.Y 2063/064 to F.Y 2065/066 followed by increasing trend till F.Y 2067/068. The highest amount of loan recovered by RBB is Rs 1679.37 million in F.Y 2063/064 whereas lowest amount of loan recovered by RBB is Rs 1021.23 million in F.Y 2065/066. Likewise, the obtained ratios of loan recovery to total loans and advances are 9.87 percent, 5.44 percent, 3.34 percent, 2.99 percent and 3.06 percent respectively. As we see, the calculated ratio is in decreasing trend from F.Y 2063/064 to F.Y 2066/067 which is not a good sign to RBB. It shows that RBB is unable to recover loan from their customer at right time. But, there is a slight improvement as ratio has increased in F.Y 2067/068 i.e. 3.06 percent. The mean ratio is 4.94 percent which shows bank negligence or failure in collecting loans from customer regularly. Also, the C.V is 53.11 percent which is very high from bank point of view. So, the bank has to take immediate action or should implement new methods or techniques for speedy recovery of loan all the time.

The loan recovery ratios of RBB are shown in figure 4.18.

Figure: 4.18

Loan Recovery Ratio

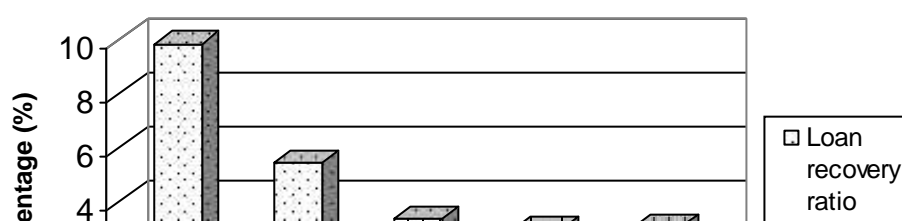


Figure 4.18 shows decreasing trend of loan recovery ratio from F.Y 2063/064 to F.Y 2066/067. But, in F.Y 2067/068, there is a slight increase in ratio. Overall, the bank is unable to recover loan from customer at proper time.

4.5.1 Growth rate of total loans and advances

The calculated growth rates of loans and advances are shown in table 4.18.

Table: 4.18
Growth Rate of Total Loans and Advances

(In millions)

Fiscal year	Total loans and advances	Ratio (in %)
2063/064	17006.456	16.22
2064/065	27524.922	61.84
2065/066	31606.964	14.83
2066/067	35692.514	12.93
2067/068	36866.104	3.28
	Mean	21.82
	S.D	20.52
	C.V	94.04

Source: RBB Annual Report

Table 4.18 shows growth rate of total loans and advances of RBB for the period of five years. There is an increasing trend of total loans and advances of RBB from F.Y 2063/064 to F.Y 2067/068. But, if we see the growth rate, it has increased from 16.22 percent to 61.84 percent in F.Y 2064/065 but after that there is a decreasing trend in growth rate of loans and advances till F.Y 2067/068. The mean ratio is 21.82 percent which shows that bank is successful enough to provide more loans and advances to

customers. Also, the bank has more chance to earn high interest from loans and advances provided to customers. The C.V is 94.04 percent which shows inconsistency in growth rate of loans and advances of RBB. So, the bank needs to increase its investment as loans and advances in different sectors in the future. The growth rates of loans and advances are shown in figure 4.19.

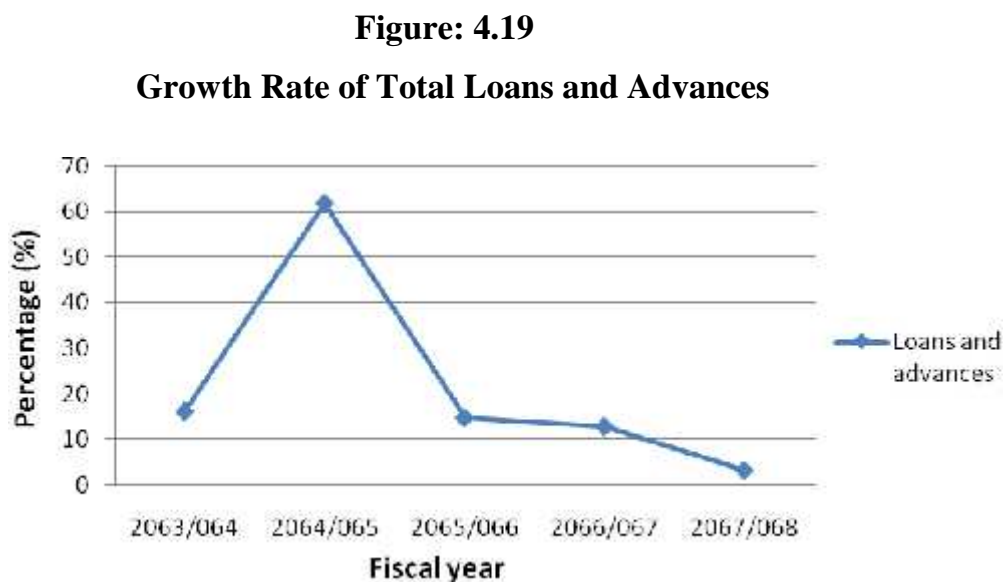


Figure 4.19 shows massive increase in growth rate of loans and advances in F.Y 2064/065 followed by decreasing trend till the end. Overall, the growth rate of loans and advances is not satisfactory because bank is unsuccessful in providing sufficient loans and advances to the customer.

4.5.2 Growth rate of loan recovery

The duty of bank doesn't end only by disbursing loan. It should make an attempt for quick loan recovery which reduces the chances of bad debt. The high ratio indicates high efficiency of bank in collecting loans from customers whereas low ratio indicates bank negligence in recovering loans from customers.

The calculated growth rates are shown in table 4.19.

Table: 4.19
Growth Rate of Loan Recovery

(In millions)

Fiscal year	Loan recovery	Ratio (in %)

2063/064	1679.37	26.68
2064/065	1498.72	-10.75
2065/066	1021.23	-31.86
2066/067	1092.54	6.98
2067/068	1228.68	12.46
Mean		0.70
S.D		20.22
C.V		2888.5

Source: RBB Annual Report

Table 4.19 shows growth rate of loan recovery of RBB from F.Y 2063/064 to F.Y 2067/068. The highest amount of loan recovered by RBB is Rs 1679.37 million in F.Y 2063/064 whereas lowest amount of loan recovered by RBB is Rs 1021.23 million in F.Y 2065/066. The growth rate of loan recovered is not uniform or stable. The growth rate has decreased to 10.75 percent in F.Y 2064/065 and again it further decreased to 31.86 percent in F.Y 2065/066. After that, the ratio has increased to 6.98 percent in F.Y 2066/067 and finally it has increased rapidly to 12.46 percent in F.Y 2067/068. Within these periods, the average loans collection growth is 0.7 percent which is very low from bank point of view in collecting loans from customers. Similarly, the S.D is 20.22 percent and C.V is 2888.5 percent which shows extreme inconsistency in loan recovery rate of RBB. Overall, the bank is very slow or passive in collecting loan from customer at right time. It also shows the lack of commitment or enthusiasm in making loan recovery from customer. Thus, the bank management should introduce new plans and policies for speedy recovery of loan from the customers.

The growth rates of loan recovery are presented in figure 4.20.

Figure: 4.20
Growth Rate of Loan Recovery

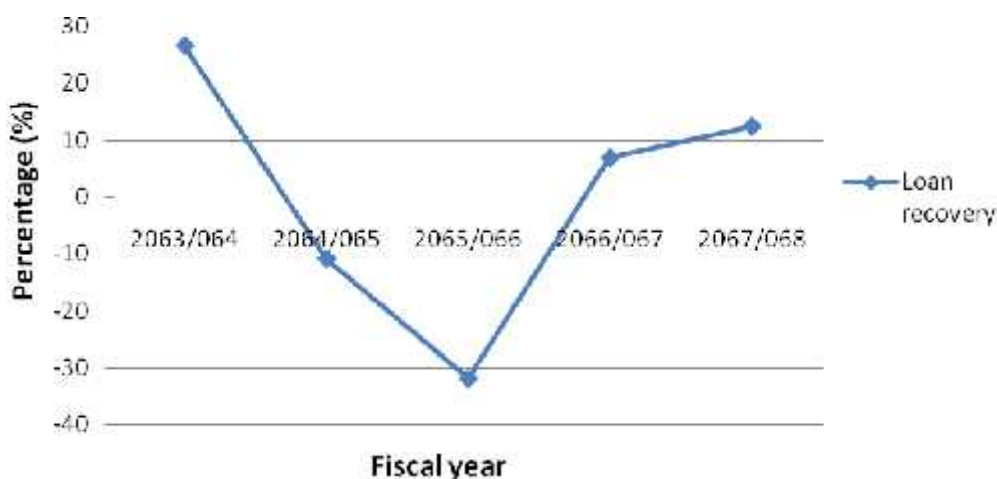


Figure 4.20 depicts decrease in growth rate of loan recovery from F.Y 2063/064 to F.Y 2065/066 which is not a good sign for bank. But again the growth rate has increased from F.Y 2065/066 till F.Y 2067/068. Since, the growth rate is negative; the loan recovery position of bank is not so strong.

Overall, the loan recovery position of RBB is very poor. The bank is unable to recover loans from customers on a regular basis. The high growth rate of loans and advances shows ability of bank to extend their credit facilities every year but poor mean ratio of growth rate of loan recovery shows bank failure in recovering loans from customers at appropriate time. Thus, the bank should adopt new methods and techniques to recover loans from customers at proper time.

4.6 Analysis of return on deposit and investment

Profit is one of the crucial factors for firm's expansion and diversification. It is regarded as the engine of diversification since engine drives the business and indicates economic progress. Commercial bank need to maintain sufficient amount of profit for successful day to day operations and for long run survival in the competitive environment. In this study, the analysis of return on deposit and investment is done to show the relationship of net profit with deposit and investment of RBB.

4.6.1 Analysis of return on investment

It measures the profit earning capacity of RBB from investment made in different sectors. In this competitive age, every commercial bank needs to expand their

investment in various productive sectors. Also, they need to maximize their chance of earning profit as much as possible. Return will be higher if the bank's fund is well managed and efficiently utilized. It is calculated by dividing net return by total investment. After calculating ROI, it is compared with ROA of RBB.

Table: 4.20
ROA and ROI Ratio

(In percentage)

Ratio	Fiscal year					Mean	S.D	C.V
	2063/064	2064/065	2065/066	2066/067	2067/068			
ROA	3.66	2.94	2.71	2.67	2.17	2.83	0.48	16.96
ROI	5.72	4.21	4.30	4.13	3.37	4.35	0.76	17.52

Source: Annex I and II

Table 4.20 represents decreasing trend of ROA ratio from F.Y 2063/064 to F.Y 2067/068. The obtained ratios of ROA are 3.66 percent, 2.94 percent, 2.71 percent, 2.67 percent and 2.17 percent respectively for the period of five years. Similarly, the ratio of ROI is in fluctuating trend throughout the study period. The obtained ratios of ROI are 5.72 percent, 4.21 percent, 4.30 percent, 4.13 percent and 3.37 percent respectively from F.Y 2063/064 to F.Y 2067/068. The mean ratio of ROA is 2.83 percent and the mean ratio of ROI is 4.35 percent. It shows return from total investment is high than return from total assets of RBB. From consistency point of view, the C.V of ROA is 16.96 percent and the C.V of ROI is 17.52 percent. The mean ratio of ROI is better than mean ratio of ROA, but from consistency point of view, the C.V of ROA is lower than C.V of ROI. The level of risk is almost similar but return from investment is little high than return from total assets. It shows RBB has better chance to earn high return from investment made in different sectors.

The obtained ROI and ROA ratios are presented in figure 4.21.

Figure 4.21

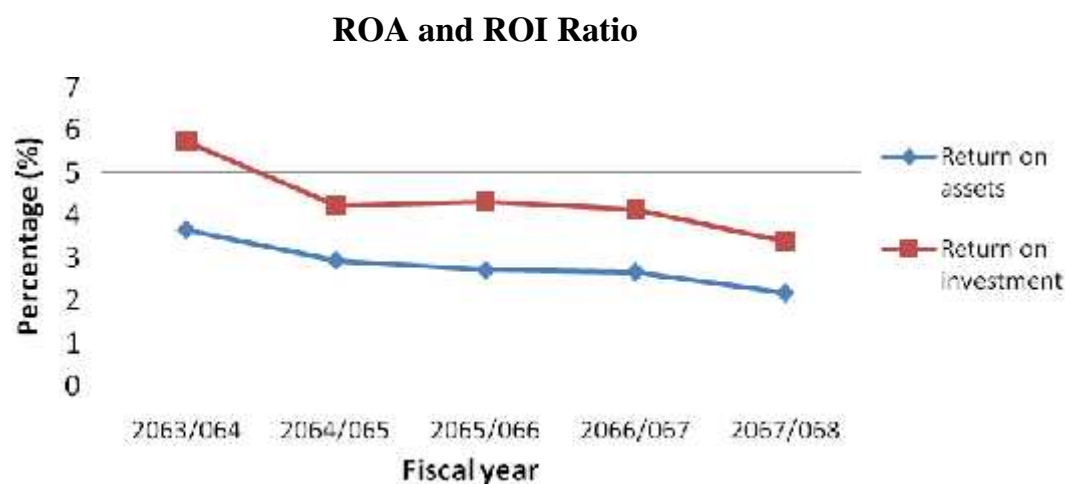


Figure 4.21 shows decreasing trend of ROA and fluctuating trend of ROI throughout the study period. It shows RBB is getting high return from investment by taking slight high risk. Thus, it is important for RBB to increase the net profit which automatically increases ROI and maintain stable ratio in the future.

4.6.2 Analysis of return on deposit

It shows the return obtained from total deposit made in the bank. In this study, the ratio of return on deposit is calculated and after that it is compared with return on total assets of RBB.

Table: 4.21
ROA and ROD Ratio

(In percentage)

Ratio	Fiscal year					Mean	S.D	C.V
	2063/064	2064/065	2065/066	2066/067	2067/068			
ROA	3.66	2.94	2.71	2.67	2.17	2.83	0.48	16.96
ROD	3.36	3.05	2.98	2.93	2.38	2.94	0.32	10.80

Source: Annex III

In table 4.21, both ROD and ROA ratios are in decreasing trend throughout the study period. The obtained ratios of ROA are 3.66 percent, 2.94 percent, 2.71 percent, 2.67 percent and 2.17 percent respectively from F.Y 2063/064 to F.Y 2067/068 whereas obtained ratios of ROD are 3.36 percent, 3.05 percent, 2.98 percent, 2.93 percent and 2.38 percent respectively from F.Y 2063/064 to F.Y 2067/068. The highest ratio of

ROD is 3.36 percent in F.Y 2063/064 and lowest ratio is 2.38 percent in F.Y 2067/068. Similarly, the highest ratio of ROA is 3.66 percent in F.Y 2063/064 and lowest ratio is 2.17 percent in F.Y 2067/068. The mean ratio of ROA is 2.54 percent and the mean ratio of ROD is 2.94 percent. It shows high return of RBB from total deposit than total assets. From consistency point of view, the C.V of ROD i.e. 10.80 percent is better than C.V of ROA i.e. 16.96 percent. Thus, it is clear that RBB is getting sufficient return from total deposit without taking high risk and the deposit position of RBB is strong than the total assets of the bank. The calculated ROA and ROD ratios are presented in figure 4.22.

Figure: 4.22
ROA and ROD Ratio

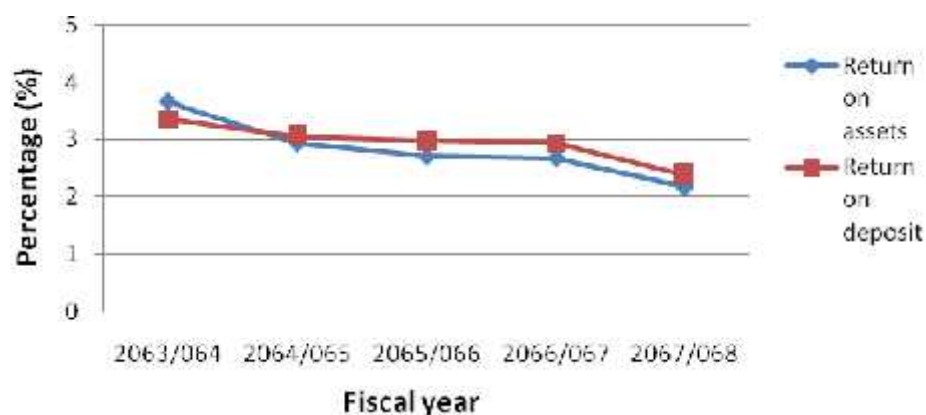


Figure 4.22 depicts decreasing trend of ROA and ROD ratio for the period of five years starting from F.Y 2063/064 to F.Y 2067/068. As return on total deposit is higher than return on total assets, it is clear that the deposit position of RBB is strong than total assets. So, RBB needs to increase amount of net profit to increase the ratio of ROA in the future.

4.7 Analysis of relationship between deposit and investment

In this competitive age, it is vital to understand the relationship between deposit and investment in any commercial bank. As we know, without deposit, the operation of bank is almost impossible. If there is a large deposit made in the bank, then it shows better liquidity and financial position of bank. The bank may extend the credit facilities of providing loans to customer and it can invest their funds in different

sectors of nation if they have sufficient fund. Also, all the banks can invest in various securities which are highly liquid in market. So, there is a deep relation of deposit with investment in any particular bank.

In this study, the researcher is trying to examine the relationship between deposit and investment of RBB. After examining their relationship, it will be helpful for bank whether to increase deposit and investment in the future or not. To observe their relationship, Karl Pearson's coefficient of correlation is the most effective statistical tools.

4.7.1 Coefficient of correlation between deposit and investment

Deposit is very crucial for the operation of any commercial bank and similarly investment is important to mobilize the collected deposits. So, coefficient of correlation is used to measure the degree of relationship between these two variables. Here, deposit is independent variable (X) and investment is dependent variable (Y). The purpose of computing coefficient of correlation is to justify whether the deposit are used in proper way or not. The calculated values are presented in table 4.22.

Table: 4.22
Correlation between Deposit and Investment

Correlation Coefficient (r)	Coefficient of determination (r^2)	P. E	6*P.E	Remark
0.9708	0.942	0.017	0.102	$r > 6*P.E$

Source: Annex IV

Table 4.22 shows correlation coefficient between deposit and investment of RBB is 0.9708. Similarly coefficient of determination (r^2) is 0.942 which indicates that 94.2 percent of variation in dependent variable (investment) has been explained by the independent variable (deposit). Furthermore, calculated P.E and 6*P.E are 0.017 and 0.102 respectively. Here, value of correlation coefficient 'r' is greater than 6 times probable error i.e. $0.9708 > 0.102$. Therefore, there is a significant relationship between deposit and investment of RBB. It is concluded that RBB is successful in utilizing its total deposit in different sectors and as well the bank is getting sufficient return from its investment.

Thus, while analyzing the relationship between deposit and investment, there is a positive relation between deposit and investment of RBB. At first, RBB is collecting sufficient deposit from customers and after that those collected funds are invested in various sectors which have become very profitable for bank. Overall, the relation between deposit and investment of RBB is very satisfying.

4.8 Major findings of the study

The major findings of study on deposit collection and investment policy of RBB are as follows:

1. The mean ratio of saving deposit, fixed deposit, current deposit and other deposits of RBB are 61.7 percent, 6.68 percent, 27.39 percent and 4.22 percent respectively during the study period. Similarly, the mean ratio of growth rate of total deposit is 10.01 percent which is quite satisfactory.
2. The slope of trend line of total deposit is Rs 5757 million. Similarly, the slope of trend line of saving deposit, fixed deposit, current deposit and other deposits are positive with value of Rs 1770 million, Rs 680 million, Rs 2679 million and Rs 627.7 million respectively.
3. In sector wise investment of RBB, the mean ratio of real estate loan, home and housing loan, marginal loan, term loan, OD loan, other loans and other investment are 4.68 percent, 6.95 percent, 1.58 percent, 4.68 percent, 32.39 percent, 16.44 percent and 33.28 percent respectively.
4. The slope of trend line of total investment is Rs 5169 million. Similarly, the slope of trend line of home and housing loan, OD, trust receipt and working capital loans, term loans and other loans are Rs 119.6 million, Rs 1830 million, Rs 97.41 million and Rs 2782 million respectively. But the slope of trend line of real estate loan and marginal loan is negative during the study period which is not good from bank point of view.
5. The slope of trend line of investment in government securities is Rs 628.1 million. But, the slope of trend line of investment made in local bank, shares and non government institutions is negative during the study period.
6. The mean and C.V of loan recovery ratio during the study period are 4.94 percent and 53.11 percent respectively. Similarly, the mean and C.V of growth

rate of loans and advances are 21.82 percent and 94.04 percent respectively. Like that, the mean and C.V of growth rate of loan recovery are 0.7 percent and 2888.5 percent respectively.

7. The mean and C.V of return on total deposit are 2.83 percent and 16.96 percent respectively whereas mean and C.V of return on total investment are 4.35 percent and 17.52 percent respectively.
8. The correlation analysis shows correlation coefficient 'r' between deposit and investment of the bank is 0.9708 and probable error multiplied by six is 0.102.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter includes three aspects of the study. At first, it presents the brief summary of the study, secondly it makes remarks upon them and finally it contains some valuable suggestions and recommendations based on findings of the study.

5.1 Summary

Economic growth of nation is almost impossible without the systematic and pre planned development of trade and commerce. Undoubtedly, financial institutions stimulate the development of commerce to its domain since financial institution itself is the part of commerce. Commercial development is the foundation of economic development. It can tremendously change the livelihood of people by providing employment, utilizing their capability and skill for generating income, mobilizing productive natural resources etc. Thus, banking and financial institutions are the backbone of the country as they introduce new financial technology and banking system to mobilize savings of the community.

The study was conducted with the objective to analyze deposit and investment of RBB over five year's period starting from F.Y 2063/064 to 2067/068. In this study, the deposit position and investment composition of RBB are examined to identify the strength and weaknesses of bank while collecting deposit and investment. Here, case study research design has been used and analysis has been made in the same way. For the study, RBB has been selected as sample unit out of 31 commercial banks of Nepal and convenience sampling method has been used. The data and information are collected from secondary sources such as annual reports, financial statements, official records, periodicals, official websites, journals and bulletins and various unpublished master' dissertations. In addition to this, few primary data are used in this research work which is collected from unstructured interview with senior staffs in the bank. Furthermore, financial tools such as return on assets, return on investment, return on deposit and growth ratio and statistical tools such as mean, s.d, C.V and trend analysis have been used to analyze and interpret the data and information.

The study has been organized in five main chapters consisting of introduction, review of literature, research methodology, data presentation and analysis and summary, conclusions and recommendations. The limitation of the study is random selection of one commercial bank among 31 commercial banks. The study only covers data of five years period which may not be sufficient for further research studies. It has only focused on subject matters and has ignored other various areas of commercial banks. It heavily relies on secondary data and only few primary data are collected for achieving the objectives of the study.

While analyzing the deposit collection of RBB, the bank has collected maximum amount from saving deposit and the bank has collected minimum amount from other deposits such as call deposit, karma yogi deposit, maha laxmi deposit etc. The growth rate of total deposit collection of RBB is very satisfactory during the study period. It shows intensity of bank in making deposit collection all the time. Similarly, while making trend analysis of deposit, the bank has good chance to collect high other deposits than saving, current and fixed deposit in the future. The analysis of sector wise investment shows RBB is making high investment in other sectors such as government securities, local bank and shares and non government institution whereas the bank has offered very low marginal loans during the study period. It shows bank's negligence to provide more marginal loans to the customers. In trend analysis of investment, the trend line of OD, trust receipt and working capital loan is very sharp than any other forms of investment made by RBB. It shows high chance of RBB to collect more interest from OD, trust receipt and working capital loans in the future. Apart from that, the calculated mean and C.V of loan recovery ratio shows low return and high risk while recovering loans from customers. Also, the mean and C.V of growth rate of loans and advances and loan recovery are very poor during the study period of RBB. It shows poor performance of RBB while recovering loans and advances from the customers in all years. Further more, while comparing return on total deposit with return on total investment, the bank is successful in getting high return from total deposit without taking high risk. It depicts strong position of deposit than total investment during the study period. Like that, while measuring the relationship between deposit and investment of RBB, the value of 'r' is greater than 6*P.E during the study period. It shows significant relationship between deposit and investment of RBB and as well it reflects outstanding performance of RBB to maintain

positive relationship between them for such a long period.

5.2 Conclusion

On the basis of secondary data analysis and major findings drawn in fourth chapter, various conclusions have been drawn to examine the deposit and investment position of RBB. The conclusions that are drawn in this study are as follows:

- 5.2.1** The mean ratio of deposit composition shows that the bank has collected high amount from saving and current deposit and the bank has collected low amount from fixed and other deposits. Thus, it is concluded that the fixed and other deposits have made very low contribution to total deposit.
- 5.2.2** The slope of trend line of other deposits is very sharp than saving deposit, fixed deposit and current deposit. So, the bank has good chance to collect high other deposits in the future. Even though, the bank has collected very less amount from other deposits, but due to sharp trend line, the bank has good chance to collect high other deposits in the future.
- 5.2.3** The mean ratio of sector wise investment shows that highest investment is made in other areas such as government securities, shares and non government institutions whereas lowest investment is made while offering marginal loan. Thus, the marginal loan has very low contribution to total investment of RBB.
- 5.2.4** The slope of trend line of OD, trust receipt and working capital loan is very sharp than investment made by RBB in other various sectors. So, the RBB has good chance to earn high interest from OD, trust receipt and working capital loan in the future.
- 5.2.5** The slope of trend line of investment in government securities is positive which shows favorable chance of RBB to collect high income from government securities in the future. But, the slope of trend line of investment made in local bank, shares and non government institution is negative which shows low chance of earning income from such investment in the future.
- 5.2.6** The calculated mean and C.V of loan recovery ratio shows low return and high risk of RBB while collecting loans from customers. Like that, the mean and C.V of growth rate of loans and advances shows high return of bank by taking very high risk. Similarly, the mean of growth rate of loan recovery is very low

throughout the study period. Thus, it is concluded that bank is unsuccessful in recovering loans from customers at proper time which is the downfall of their performance while making investment in various sectors.

- 5.2.7** The calculated mean and C.V of return on total deposit is better than return on total investment. It is concluded that the position of return on total investment is very weak of RBB. It shows low investment and poor plans and policies of RBB in making investment during the study period.
- 5.2.8** From correlation analysis, it is concluded that there is a significant relationship between deposit and investment of RBB as value of 'r' is greater than 6*P.E. But, the amount of total investment is very low than total deposit throughout the study period which may cause few problem while maintaining balance between deposit and investment of RBB in the future.

5.3 Recommendations

On the basis of analysis, findings and conclusions of the study, following recommendations can be made as suggestions to overcome the weakness, inefficiency and to improve present fund mobilization and investment of RBB.

- 5.3.1** RBB has collected less fixed deposit and other deposits throughout the study period. So, the bank is suggested to increase fixed deposit and other deposits by providing various deposit schemes and facilities to the depositors.
- 5.3.2** The loan offered as marginal loan is very low. So, RBB is recommended to provide more marginal loans by charging low interest rate while providing marginal loans to the customers. By extending loans and advances to the customers, the investment position of bank will be strong for the long period of time.
- 5.3.3** The bank is offering high OD, trust receipt and working capital loans during the study period. So, the bank is advised to provide more OD, trust receipt and working capital loans which increases the chance of earning high interest in the future. The bank should explore new areas for expansion and diversification of their investment.
- 5.3.4** As the slope of trend line of investment made in local bank, shares and non government institution is negative, the bank is recommended to make more

investment in such sectors by applying new methods and techniques in the future. Similarly, the bank should know the importance of making investment in local bank, shares and non government institution in this competitive age.

- 5.3.5** Every bank needs to collect loans and advances from customer within stipulated time. But, RBB is unable to recover loans from customer at right time. So, the bank is suggested to follow appropriate loan recovery policies for speedy recovery of loan in the future. By immediate recovery of loans from the customers, the bank can mobilize those collected funds in other various sectors to generate high profit in the future.
- 5.3.6** The main objective of every bank is to earn high profit. A bank earns maximum profit if it mobilizes its fund properly. The return on total deposit is satisfactory but the return on total investment shows slight high risk while getting return from total investment. So, the bank is suggested to use its total assets in productive sector in order to increase the net profit which automatically increases return on total investment.
- 5.3.7** The total investment is very low while comparing with total deposit collected by RBB. So, the bank is suggested to increase investment along with total deposit to maintain positive relationship between them in the future. The bank should know that the success of any bank largely depend upon its ability to make investment in profitable sectors for a long period of time.

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APPENDICES

ANNEX I

Return on total investment (In millions)

Year	Net profit	Total investment	Ratio (%)
2063/064	1697.09	29656.6	5.72
2064/065	1770.55	42068.05	4.21
2065/066	2032.23	47250	4.30
2066/067	2010.69	48681.97	4.13
2067/068	1759.26	52199.24	3.37
Mean Ratio			4.35
S.D.			0.76
C.V.			17.52

ANNEX II

Return on total assets (In millions)

Year	Net profit	Total assets	Ratio (%)
2063/064	1697.09	46367.93	3.66
2064/065	1770.55	60163.73	2.94
2065/066	2032.23	75042.93	2.71
2066/067	2010.69	75260.19	2.67
2067/068	1759.26	81223.19	2.17
Mean Ratio			2.83
S.D.			0.48
C.V.			16.96

ANNEX III

Return on total deposit (In millions)

Year	Net profit	Total deposit	Ratio (%)
2063/064	1697.09	50464.13	3.36
2064/065	1770.55	57970.84	3.05
2065/066	2032.23	68095.69	2.98
2066/067	2010.69	68623.16	2.93
2067/068	1759.26	73924.08	2.38
Mean Ratio			2.94
S.D.			0.3174
C.V.			10.80

ANNEX IV

Coefficient of correlation between deposit and investment of RBB
(In
millions)

Fiscal year	Deposit (x)	Investment (y)	$dx = x - \bar{x}$	$dy = y - \bar{y}$	dx^2	dy^2	$dx \cdot dy$
063/064	50464.13	29656.6	-13351.45	-14314.57	178261217.1	204906914.3	191120265.6
064/065	57970.84	42068.05	-5844.74	-1903.12	34160985.67	3621865.73	11123241.59
065/066	68095.69	47250	4280.11	3278.83	18319341.61	10750726.17	14033753.07
066/067	68623.16	48681.97	4807.58	4710.8	23112825.46	22191636.64	22647547.86
067/068	73924.08	52199.24	10108.50	8228.06	102181772.3	67700971.36	83173344.51
Total	319077.9	219855.86	0		356036142.1	309172114.2	322098152.6

$$\bar{x} = \frac{\sum x}{N} = \frac{319077.90}{5} = 63815.58$$

$$\bar{y} = \frac{\sum y}{N} = \frac{219855.86}{5} = 43971.17$$

Coefficient of Correlation (r)

$$= \frac{N \sum dx \cdot dy - \sum dx \cdot \sum dy}{\sqrt{N \sum dx^2 - (\sum dx)^2} \cdot \sqrt{N \sum dy^2 - (\sum dy)^2}}$$

$$= \frac{5 \times 322098152.6 - 0}{\sqrt{5 \times 356036142.1 - 0} \cdot \sqrt{5 \times 309172114.2 - 0}}$$

$$= 0.9708$$

Coefficient of determination (r^2) = $0.9708 \times 0.9708 = 0.942$

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

$$= 0.6745 \times \frac{1-0.942}{\sqrt{5}}$$

$$= 0.017$$

$$6 \cdot (\text{P.E}) = 6 \times 0.017$$

$$= 0.102$$