

**INTEREST RATE AND ITS IMPACT ON DEPOSIT
MOBILIZATION OF COMMERCIAL BANKS**

A THESIS

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**INTEREST RATE AND ITS IMPACT ON DEPOSIT MOBILIZATION OF COMMERCIAL BANKS**” submitted to the Research Department of Shanker Dev Campus, Putalisadak, Kathmandu, Faculty of Management, Tribhuvan University is my original done in the form of partial fulfilment for the requirement of Masters of Business Studies (MBS), under the supervision of **Rishi Raj Gautam** and **Kiran Thapa** of Shanker Dev Campus.

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LIST OF ABBREVIATIONS

A.D	Anno Domini
ADB/N	Agriculture Development Bank, Nepal
Amt.	Amount
ATM	Automated Teller Machine
BOK	Bank of Kathmandu Limited
C.V	Coefficient of Variation
CD	Certificate of Deposit
EBL	Everest Bank Limited
FDR	Fixed Deposit Rate
FIs	Financial Institutions
FY	Fiscal Year
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
KBL	Kumari Bank Limited
Ltd.	Limited
MBS	Master of Business Studies
NABIL	Nabil Bank Limited
NCC	Nepal Credit and Commercial Bank Limited
NGO	Non Government Organization
NIBL	Nepal Investment Bank Limited
NIC	Nepal Industrial & Commercial Bank Limited
NIDC	Nepal Industrial Development Corporation
No.	Number
NOW	Negotiable Order of Withdrawal
NRB	Nepal Rastra Bank
RBB	Rastriya Banijya Bank
S.D	Standard Deviation
SCBL	Standard Chartered Bank Limited
SLR	Statutory Liquidity Ratio
T.U	Tribhuvan University
U.S	United States

CHAPTER I

INTRODUCTION

1.1 General Background of the Study

The interest rate is the price charged to borrower for the loan of money. In very general term, interest rate is the price paid for credit. So, it is computed dividing the cost of borrowed fund in rupees by the amount of money actually used by the borrower. An interest rate is the cost of borrowing money. Without it, people would not be willing to lend or even save their cash, both of which require a deferment of the opportunity to give up spending in the present. But prevailing interest rates are always changing and different types of loans will offer various interest rates. The interest rate is expressed in an annual percentage basis. As the interest rate provides the price signal in the financial system, thus it is important to all the participants: the borrowers, the lenders, savers, and investors for example, higher interest rate encourages savings in greater volume and increases the lending activities of funds. Lower interest rate, in other hand, discourages the savings and reduces the lending activities as well.

Interest is the price that one pays for utilising a certain amount of money for a specific period of time. Interest can thus be considered a cost for one entity and income for another. Interest is the opportunity cost of keeping your money as cash under your mattress as opposed to lending. If you borrow money, then the interest you have to pay is less than the cost of forgoing the opportunity to have the money in the present. It is the rent paid for using money provided by a lender. Essentially, there are three components in the interest rates – risk

free rate, risk premium and adjustment for inflationary or deflationary situations.

Risk-free rate is paid as compensation for deferred consumption by the borrower to the lender. As a borrower derives satisfaction well in advance by bringing forward his consumption, he is required to pay some price, which can be considered as risk-free part of the interest rates.

Risk-premium depends on the credit worthiness of the borrower. Higher the perceived risk on part of the lender, more risk premium is added to the risk-free rates and vice-versa. An interest rate also has adjustments for inflationary or deflationary economic situations.

When value of money is going to fall in inflationary economy, equivalent amount of premium is added to the interest rates, whereas in deflationary economies, interest rates are discounted to factor increase in the value of the money.

Weston & Brigham (2004), in their book “*Fundamentals of Financial Management*” have identified four fundamental factors affecting the cost of money which are (a) Production opportunities (b) Time preference for consumption (c) risk & (d) inflation. They have added risk and inflation to as fundamental factors of determining interest rate. Risk is the borrower’s ability to repay the loan. In financial market context, risk is the chance that financial assets will not earn the return promised. On the other hand, inflation is the tendency of prices to increase over time.

Thus we see that interest rate paid to savers depends in the following ways.

On the rate of return, producer expects to earn on invested capital

-) On Saver’s time preference for current versus future consumption
-) On the risk of the loan and
-) On the expected rate of inflation

Deposit collection and mobilization is one of the major sources of capital formation. Deposit mobilization is primary and crucial function of any commercial bank. Bank provides facility of saving to general public and provides funds to investors, which help in mobilization of public fund in fruitful purposes, which helps in country's economic development. The collection of deposit and its mobilisation are the two sides of the same coin, in the absence of one, another cannot work i.e. without the collection of deposit, mobilisation of deposits would be quite impossible and vice versa. They both get along with another under favourable condition, interest rate being the most. Interest is the main factor in fund activities of commercial banks. Interest rate affects on the collection of deposits mobilisation of saving position.

In 1986, financial institutions got freedom in fixing their interest rates in their deposits and loans. In addition, there was also limitation on the interest rate amounts on the different loans provided for productive and priority and full deprived sector. However, there were limitations on certain sectors of lending such as the rate of maximum of 15 percent on the priority sector loan. And for other kinds of loans, financial institutions were given freedom to maintain the interest rate structure. In this way the government has provided freedom as well as limitations on the determination of interest rate.

1.1.1 Brief Profile of the Sample Banks

In this section, general introduction of sample banks under study is given. This is supposed to be useful in the proper understanding of research work. Although 26 commercial banks are actively working in the nation, out of them only 10 banks are taken as samples. Here is the brief introduction of all sample banks.

Standard Chartered Bank Limited Nepal

Standard Chartered Bank Nepal Limited (SCBL), previously known as Nepal Grindlays Bank Limited has been in operation in Nepal since 30th January 1987 when it was initially registered as a joint-venture operation. Today the bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The bank enjoys the status of the largest international bank currently operating in Nepal, with 18 points of representation, 23 ATMs across the country and with more than 350 local staff; Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the bank a unique opportunity to provide truly international banking services in Nepal. SCBL offers a full range of banking products and services in consumer banking , wholesale and SME Banking catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

Nabil Bank limited

Nabil Bank limited, previously known as Nepal Arab Bank Limited, the first joint venture bank of Nepal, started its operation from July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. The head office of Nabil is located at Kamaladi, Kathmandu. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the nation and over 170 reputed correspondent banks across the globe. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started on era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of –art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and telebanking system.

Rastriya Banijya Bank

Rastriya Banijya Bank (RBB) is fully government owned and the largest commercial bank in Nepal. RBB was established on January 24, 1966 (2022 Magh 10) under the RBB Act. RBB provides various banking services to a wide range of customer including banks, insurance companies, industrial trading houses, airlines, hotels, and many other sectors. RBB has Nepal's most extensive banking network with over 124 branches. Through its branch network, RBB has been contributing to Nepal's economic development by providing banking services throughout the country. RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finance, bank-originated personal funds transfers and interbank fund transfer via SWIFT. In a bid to promote remittance business, RBB works with Western Union and International Money Express, two leading person-to-person funds transfer networks. In addition, RBB runs various programs i.e. banking with the poor, micro credit projector women etc. to enhance the living standard of people as per the govt. directives. As well, RBB actively delivers various government programs to people living in remote areas of the country, these programs are intended to raise living standards.

Nepal Investment Bank Ltd

Nepal Investment Bank Ltd, previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French Partners. The French partner (holding 50%) of the capital was Credit Agricole Indosuez, a subsidiary of one of the largest banking groups in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, in April 2002, acquired 50% of the holdings of Credit Agricole Indosuez in Nepal Indosuez Bank. The name of the bank was changed to Nepal Investment Bank Ltd. upon approval of the Bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's Office. Out of total equity shares of NIBL, 50% shares hold by a group of companies, 15% shares by Rastriya Banijya Bank, another 15% shares by Rastriya Beema Sansthan and remaining 20% being held by the General Public (which means that NIBL is a company listed on the Nepal Stock Exchange.).

Kumari Bank Limited

Kumari Bank Limited came into existence as the fifteenth commercial bank of Nepal by starting its banking operation from Chaitra 21, 2057 B.S. (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. This bank was established under Company Act 2053 and Commercial Act 2031. The bank has paid up capital of Rs. 1,304,935,920 of which 70% is contributed from promoters and remaining from public. Kumari bank limited has been providing wide-range of modern banking services through 22 points of representation located in various urban and semi urban part of the country, 13 outside and 9 inside the valley, as at the fiscal year ended 15th July 2009. It has operated 21 ATMs in different locations of the country. It has made plan to operate 11 new branches in running fiscal year.

Nepal Industrial & Commercial Bank Limited

Nepal Industrial & Commercial Bank Limited (NIC Bank) commenced its operation from 21st July 1998. Promoted by several prominent business houses of Nepal, it is the first commercial bank in the country to be capitalized at NPR 500 million. It is one of the most widely held companies in Nepal with close to 35 thousand shareholders. The present shareholding constitutes 51% of promoters' stake and 49% general public. The shares of the Bank are actively traded in Nepal Stock Exchange with market capitalization of about NPR 12.8 billion as at the fiscal year ended 15th July 2009. The registered office of the bank located in Main Road, Biratnagar, Nepal and corporate office located in Kamaladi Sadak, Kathmandu, Nepal. The bank expanded its branch network to 20 different locations throughout the country stretching from the far west to the eastern region, as at the fiscal year ended 15th July 2009. All its branches are inter-connected through V-sat and/ or optical-fibre network and are capable of providing on-line real time transactions. The bank was also awarded "Bank of the Year 2007" by the Banker Magazine, Financial Times, London.

Bank of Kathmandu

Bank of Kathmandu (BOK) started its operations from March 1995 with the objective

to stimulate the Nepalese economy and takes it to newer heights. The head office of BOK is located at Kamaladi, Kathmandu. BOK also aims to facilitate the nation's economy and to become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public. It has the largest net-work and at present it is serving in different locations throughout the country through the 28 branches, 6 extension centre and 37 ATMs.

Everest Bank Limited

Everest Bank Limited (EBL) started its operation from 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. This bank is joint venture with Punjab National Bank India. The head office of EBL is located in Lazimpat. This bank is providing customer-friendly services through its branch network and over 250 correspondent banks across the globe. All the branches of the banks are connected through Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account. On equity holding PNB has 20% equity participation in its total share holding and also has under taken management responsibility under a technical service agreement and promoter holding 50% and rest 30% held by general public. The main purpose of EBL is to extend professional banking services to various sectors of the society of Nepal and thereby contributing in the economic development of the country.

Nepal Commerce & Credit Bank Limited

Nepal Credit & Commerce Bank Ltd. (NCC) formally registered as Nepal - Bank of Ceylon Ltd. (NBOC), commenced its operation on 14th October, 1996 as a Joint Venture with Bank of Ceylon, Sri Lanka. It was the first private sector Bank with the largest authorized capital of Rs. 1,000 million. The Head Office of the Bank is located at Siddhartha Nagar, Rupandehi, and the birthplace of Lord Buddha while its corporate office is placed at Bagbazar, Kathmandu. The name of the Bank was changed to Nepal Credit & Commerce Bank Ltd., on 10th September, 2002, due to transfer of shares and management of the Bank from Bank of Ceylon, an undertaking of Government of Sri Lanka to Nepalese Promoters. At present, NCC Bank provides

banking facilities and services to rural and urban areas of the Kingdom through its 17 branches. The Bank has developed corresponding agency relationship with more than 150 International Banks having worldwide network.

Himalayan Bank Limited

Himalayan Bank Limited (HBL) was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employee Provident Fund and Habib bank Limited, one of the largest commercial bank of Pakistan. Banking operation was commenced from January 1993. HBL does not include government ownership. It has been established to maintain the economic welfare of the general people to facilitate loan for agriculture industry and commerce to provide the banking service to the country and people. It is the first commercial bank of Nepal with maximum share holding by Nepalese private sector. Besides commercial, activities, the bank also offers industrial and merchant banking. Its ownership is composed of founder shareholder 51% Habib bank of Pakistan 20%, employee's provident fund 14% and general public 15%. It is the 1st bank having domestic ownership more than 50%. HBL has been operating in high profit from the establishment period till now. It accepts deposit through current deposit, saving deposit, fixed deposit and call deposit. At present, Himalayan Bank has a total network of 17 branches across the country and a counter in the premises of the Royal palace. There are six branches in Kathmandu valley In addition; the bank has also ten branches outside Kathmandu valley.

1.2 Statement of the Problem

Banking sector has always been the promising sector giving high return and value to its promoters and shareholders; their down looking financial scenarios has created very less investment alternatives and comparatively lower return. Our country showed several banks within short period of time fighting for small amount of market share, which requires excessive force making high operational cost. Interest rates as a major tool to change the fortune of the bank it has always been modified as per situation and economy. After commercial banks received autonomy to determine their own interest

rate they have greater burden to carry if it is to shoulder responsibility to drag country towards prosperity. An appropriate interest rate is always sought to keep both parties i.e. depositors and borrowers at profitable minimum. Due to stiff competition between the banks to increase the volume of deposit and loans and investments it has been working under very less interest spread which is able to hardly cover total cost. This has been because of excessive availability of financial institutions. Moreover frequent changes of interest rate within and outside the bank has changed the banking habit of individual depositors. There has been high tendency to transfer fund from less interest bearing bank to higher interest bearing ones while lower rated lending banks are seeing huge loan applications.

The change in interest rates certainly has deep impact on the activities of the commercial banks. This study basically deals with such impacts of interest rate on the deposit mobilization. The main attempt of this study will be to answer the following questions.

-) What will be the impact of fluctuations in the interest rates on deposit, loan and investment?
-) Do interest rate structures affect the investments of commercial banks?
-) Do changes in interest rates affect total deposits and loans of commercial banks?
-) Is interest rate the main factor in attracting customers to deposit and lend in banks?

1.3 Objectives of the Study

The main objective of this study is to know the overall influence of interest rate on deposit of commercial banks as well as to identify whether the interest rate spread is satisfactory or not. Besides this the other specific objectives related to this study are as given below.

-) To examine the impact of the interest rate on the mobilization of deposits.
-) To analyze the trend of deposit, investment and loan and advances.

-) To analyse the relationship of deposit with interest rate, investment and loan and advances.
-) To examine the interest rate spread.

1.4 Limitations of the Study

Though this study has been attempted to an accurate and deficiency free, the use of different econometric models for the analysis of impact of interest rate on deposit mobilisation may have rendered it quite reliable. The empirical analysis has been done only for a period of eight years and this may serve as a constraint for future studies made on the subject. Every research has more or less limitation. Lack of experiences, time financial resources and up to date information are the main limitation of the study. For the completion of this study, some facts are to be considered as the limitation. These are presented as below

-) The study covers only a period of 8 years.
-) This study is based on secondary data. Accuracy depends upon the data collection and provided by the banks.
-) The study is based on the annual data only. The rates that respective banks have taken out in Mid-July have been taken as interest rates for the whole year.

1.5 Significance of the Study

As the interest rate provides the price signal in the financial system, thus it is important to all the participants: the borrowers, the lenders, savers, and investors for example, higher interest rate encourages savings in greater volume and increases the lending activities of funds. Lower interest rate, in other hand, discourages the savings and reduces the lending activities as well. Hence economic growth depends upon circulation of money and financial system facilitates it. Researcher believes that following institution and individual will be benefited from the study.

-) Individuals who have keen interest in Nepalese economy and banking sector.
-) Investors, depositors, borrowers and others who are directly and indirectly involved on financial market.

-) By the help of this study, general public can know the interest rates offered by banks for deposits of the Nepalese commercial banks.
-) The study of interest rate and its impact on deposits would provide information to the management of concern banks that would be helpful to take corrective actions in the banking activities.
-) This study provides valuable information that is necessary for the management of the banks, shareholders, general public and related parties.

1.6 Organisation of the Study

This study has been organized into five chapters. Each chapter has its importance and deals with important aspect of the study.

The first chapter presents the introduction of the study. It includes various aspects of present study like Background of the Study, Focus of the Study, statement of the problem, objective of the study, significance of the study and limitation of the study.

The second chapter presents review of literature including concepts of interest rate theories, factors affecting interest rates, concepts of deposit with the study of related books, journal and thesis.

The third chapter is research methodology which includes research design, nature and source of data, population and sampling of the study, methods and tools of analysis of data and at last definition of key terms.

The fourth chapter presents the data analysis and presentation. This chapter is the main aspect of the study. It deals with data collection procedure and presentation of data with different statistical and financial tools, and findings of the study.

The fifth chapter is summary, conclusion and recommendation. At the end of the chapter summary of whole study, conclusion and recommendation is made.

CHAPTER II

REVIEW OF LITERATURE

Review of literature is an essential part of research studies. It is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps the researcher to develop through understanding and insight into previous research works that relates to the present study. The purpose of reviewing the literature is to develop some expertises in one's area loose what new contribution can be made and to receive some ideas for developing a research deign. In other words, there has to be continuity in research.

This continuity in research is ensured by liking the present study with the past research studies. From above it is clear that the purpose of literature review is to be finding out. What research has been conducted is one's chosen find of study and what remarks to be done. The review of literature provides basic foundations to this study. The various concepts employed in the study are, in fact, derived from the different literature surveyed in this part. The review of these literatures has been described in three parts. This first part presents discussion on conceptual frameworks while the other two parts deal with review of literature in the international context, and review of Nepalese studies.

2.1 Conceptual Framework

Different authors have defined interest and deposit in different ways. A review of these definitions is important in order to have a better insight into this subject matter. This part, therefore deals with the concept of interest and deposit, the evolution of these concepts and their different components.

2.1.1 Interest Rate Theories

Shrestha, 2065 in his book “*Financial Institutions & Markets*” has mentioned the following theories about interest rate.

a. Classical Theory of Interest Rate

The classical theory of interest rate is one oldest theory to determine the pure or risk free rate interest developed during the eighteenth and nineteenth centuries by British economist and elaborated later by Irving fisher and others. According to this theory, the interest rate is determined by the interplay of two forces of demand from investment coming from business sectors and supply of saving derived specifically from households. The supply of savings is positively related to the market rate of interest, while the demand for investment is negatively related the level of interest rates. This theory is long-term explanation of interest rate because it focuses on the public’s thrift and the productivity of capital that need to change slowly.

b. The liquidity Preference Theory

The Liquidity preference theory was developed by J. M. Keynes in 1936. This theory basically considers the two factors which are more relevant to set the interest rates: policy makers and near term changes factors. This theory assumes that the equilibrium interest rate is formed in the money market at the point where the quantity of money in supply matches the total demand for money. The total demand for money consists of money demands for transaction, precautionary and speculation motives. Whereas the total supply of money is influenced by the action of government, the central bank.

c. The Loanable Fund Theory of Interest Rate

The loanable fund theory of interest rate assumes that the risk free rate of interest is determined by the demand for and supply of credit. This theory is based on the assumption in considering the elements of both classical and liquidity preference theories.

d. The Rational Expectation Theory

The rational expectation theory of interest focuses upon the total expected supply of credit relative to the expected demand for credit determines the rate of interest. This view of interest rates and asset prices assumes that the money and capital markets are highly efficient in the use of information in determining the public's expectations regarding future changes in interest rates and asset prices. This expectation theory assumes that business and individuals are rational agents who form expectations about the distribution of future asset prices and interest rates that do not differ significantly from optimal forecasts made from using all the available information that the marketplace provides. The rational agents attempt to make optimal use of the resources at their disposal to maximise their returns.

2.1.2 Interest Rates in Financial System

The acts of saving and lending, and the borrowing and investing activities within the financial system are significantly influence by the interest rate. The interest rate is the price paid for borrowing the scarce loanable funds from a lender for an agreed upon time period. In very general term, interest rate is the price paid for credit. But unlike other prices, in the economy, the interest rate is the ratio of two quantities. So, it is computed dividing the cost of borrowed fund in rupees by the amount of money actually used by the borrower. The interest rate is expressed in an annual percentage basis.

As the interest rate provides the price signal in the financial system, thus it is important to all the participants: the borrowers, the lenders, savers, and investors for example, higher interest rate encourages savings in greater volume and increases the lending activities of funds. Lower interest rate, in the other hand, discourages the savings and reduces the lending activities as well. Higher interest rate also means that

it tends to reduce the volume of borrowing and capital investing spending. This force in the financial system, actually, determines a rate that satisfy both savers/ lenders and borrower/investor called equilibrium rate of interest.

2.1.3 Functions of Interest Rate in the Economy

The interest rate performs several important roles in order to function properly the money and capital market in the economy. The major functions cal lists:

-) To generate adequate volume of savings to fund investment and thus to grow the economy.
-) To direct the flow of credit in the economy toward those investment projects having greater expected rate of return.
-) Brings into balance the supply of money with the public's demand for money.
-) Acts as important tools to adopt government policy.

2.1.4 Determinants of the Interest Rates

Supply and demand

Interest rate levels are a factor of the supply and demand of credit: an increase in the demand for credit will raise interest rates, while a decrease in the demand for credit will decrease them. Conversely, an increase in the supply of credit will reduce interest rates while a decrease in the supply of credit will increase them.

The supply of credit is increased by an increase in the amount of money made available to borrowers. For example, when you open a bank account, you are actually lending money to the bank. Depending on the kind of account you open (a certificate of deposit will render a higher interest rate than a checking account, with which you have the ability to access the funds at anytime), the banks can use the money for its business and investment activities. In other words the bank can lend out that money to other customers. The more banks can lend, the more credit there is available to the economy. And as the supply of credit increases, the price of borrowing interest decreases.

Interest rate levels are a factor of the supply and demand of credit: an increase in the demand for credit available to the economy is decreased as lenders decide to defer the

re-payment of their loans. For instance, when you decide to postpone paying this month's credit card bill until next month or even later, you are not only increasing the amount of interest you will have to pay, but also decreasing the amount of credit available in the market. This in turn will increase the interest rates in the economy.

Inflation

Inflation will also affect interest rate levels. The higher the rate of inflation, the more interest rates are likely to rise. This occurs because lenders will demand higher interest rates as compensation for the increase in the decrease in the purchasing power of the money they will be repaid in the future.

Government

The government has a say in how interest rates are affected. The U.S. Federal Reserve often comes without announcements about how monetary policy will affect interest rates. The federal funds rate, or the rate that institutions charge each other for extremely short-term loans, affects the interest rate that banks set on the money they lend; the rate then eventually trickles down into other short-term lending rates. The Fed influences these rates by the use of "open market transactions", which is basically the buying or selling of previously issued U.S. securities. When the government buys more securities, banks are injected with more money than they can use for lending, and the interest rates then decrease.

2.2 Concept of Deposit

Deposit is nothing more than the assets of an individual which is given to the bank for safe keeping with an obligation to get something from it. To a bank these deposits are liabilities. Commercial bank act 2031 defines "Deposits" as the amount deposited in a current, savings or fixed accounts of a bank or financial institution. The deposits are subject to withdraw by means of cheque on a short notice by customers. The rate of interest varies depending on the nature of the deposits. The bank attracts deposits from customers by offering

different rates of interest and different kinds of facilities. Though the bank plays an important role in influencing the customer to save and open deposit accounts with it, it is ultimately the customer who decides whether s/he should deposits his/her surplus funds in current deposit a/c, saving deposits or fixed /time deposit a/c. Bank deposits arise in two ways. When the banker receives cash, it credits the customer's account, it is known as a primary or a simple deposit.

2.2.1 Types of Deposit

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

Demand Deposit

It is the type of deposit that can be withdrawn on demand at anytime or any amount up to full amount of deposit. Current account, money orders and traveller's cheque are examples of demand deposit.

Customers having high no. of financial transactions use this type of deposit. Characteristics of demand deposits are as follows:

-) Accountholders can do unlimited no. of transactions any time.**
-) Normally, this type of account doesn't generate or earn any interest except where it is specially permitted by the central bank.**
-) Accountholder are given facility of overdraft if it is required after agreement with the bank.**
-) Accountholders are allowed to send cheques and note for collection from different locations.**
-) If account only holds mini mum balance, the bank can charge balance as handling charge.**

It is classified into two categories:

A) Non-Interest Bearing Demand Deposit

This type of demand deposit provides customer-oriented services, but interest payments are prohibited. Current accounts are created by this kind of deposit, which are also called checking accounts in the United States.

Demand deposit can be withdrawn without any pre-information, so are non-interest funds of banks. But today's bank is providing accounts with interest and nature of current accounts, so customers are attracted towards such deposits.

B) Interest Bearing Demand Deposit

Demand deposit, which provides customer with payment services, safekeeping funds and record keeping for any transactions, carried out by cheques as well as interest. It is also called negotiable order of withdrawal (NOW) account. NOWs are interest bearing demand deposit that gives the bank the right to insist on prior notice before withdrawals by customers but because this notice requirement is rarely exercised. It is behaved as checking account with interest. It is also called money market demand deposit account and interest bearing thrift account.

Saving Deposit

According to commercial Bank Act 2031 (1974) saving account means "An account of amounts deposited in a bank for saving purposes". The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly

meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule. Similarly there is also divergence as to how much amount of money can be withdrawn. But if the customer wants to withdraw more money from the information to the banks, s/he can withdraw more money. The bank fixes the minimum and maximum amount of bank goes into liquidation, priorities given to the saving deposit than current and fixed deposit holders while repaying the liabilities.

Fixed Deposit

Fixed deposits constitute a very important resource for banks as bank need not keep greater reserve in impact of such deposits. Under the commercial bank Act 2031(1974), "Fixed account means as account of amounts deposited in bank for certain period of time".

The customers opening such account deposit their money in the account for a fixed period. Usually, only the person or institution who wants to gain more deposit as compare to saving deposits. The bank and the customer can take benefit from this deposit. The bank invests this money on the productive sector and gains profit and the customer to can be made his financial transaction stronger by getting more interest from this deposit. The principal amount with interest must be returned to the customer after expiry of fixed time.

Call Deposit

It is the type of deposit between current and saving deposit. This type of deposit earns interest as well as can be withdrawn at call. The profit- oriented organization can't open saving accounts, so this call

account can be good alternative. Interest rates are not published for this deposit generally. So it compromised between bank and depositor. Interest is calculated in daily balance.

Recurring Deposit

Recurring deposit is developed to generate saving from public in regular basis. In this deposit, depositor has to deposit fixed amount of instalments for specific period and bank refers total amount of principal and interest at maturity.

Margin Deposit

Bank issue letter of credit, Guarantee and Indemnity on behalf of customer for certain money. These are amount to be paid to the beneficiaries. This action is conditionally liability for bank. Bank demand certain money as deposit to reduce liability. This deposit is called margin deposit. It may vary under mutual understanding.

Interest is not paid under such deposit and these deposits are returned to customer, unless any claims by beneficiaries.

2.2.2 Importance of Deposit

Deposit arises from saving. An individual's income equals consumption plus saving. S/he deposits the saved part of income in the bank gets interest from it. Banks in turn lend this money and earn profit by charging high interest rates. The borrowers from banks invest this fund in productive sectors yielding more return than the interest on borrowed fund. This investment leads to create new employment opportunity in the economy. Ultimately due to new

employment the purchasing power of the economy increases and finally GDP and growth of the economy occurs. It means that the deposit has very important role in the economy. There is a direct relationship between deposit of banks and the investment in the economy. If the volume of deposit is low, the investment in the economy also lags behind due to lack of resources. The deposit of banks is the accumulated capital which can directly be invested. There is a greater need of such deposit in the developing countries.

2.2.3 Deposit Mobilization

Collection scatted amount of capital and investing the deposited fund in productive sector to increase the income of the depositors is meant deposit mobilization. In other word, investing the collection fund in the productive sectors and increasing the income of the depositors, it also supports to increase the saving through the investment of increased extra amount. The main objective of deposit mobilization is to convert idle saving into live saving. In developing countries shortage of capital is the main problem for the developmental activities. Development is needed in the entire sector. It is not to handle and develop all the sectors by the government alone at time. People also cannot undertake large business because the per capita income of the people is very low while their propensity to consume is very high. To the low income their saving is very low and capital formation is also low. So their saving is not sufficient for carrying on development works. To achieve the higher rate of growth and per capital income, economic development should be accelerating. Economic development may be defined in a broad sense as a process of rising income per head through the accumulation capital. But how capital can be accumulating in the developing countries? In context

on Nepal, commercial banks are the main financial institution which play very important role in the resource mobilization for the economic development in the country.

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

a) Liquid Funds

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

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

b) Investment

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

-) Share and debenture**
-) Government securities**
-) Joint-venture**

c) Loan and Advances

Banks mobilize its funds or deposits by providing different types of loan and advances to customers, by charging fixed interest. Bank manages the different types of loan i.e. providing loan, business loan, and traditional loan to priority area.

d) Fixed assets

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

e) Administrative and Miscellaneous Expenses

Bank should manage funds for administrative and other miscellaneous expenses. The administrative expenses are:

-) Salary of employee**
-) Allowances**
-) Pension**
-) Advertisement**
-) Provident fund**
-) Rent**
-) Income tax**
-) Donation**
-) Insurance**
-) Stationery**
-) Commission**

) **Tour expenses**

The miscellaneous expenses are

) **To distribute the dividend to shareholders**

) **To bear the loss on sale and purchase of banking assets**

) **Maintenance expenses**

) **To pay the interest expenses on borrowed amount**

) **Reserve fund**

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

2.2.4 Need for Deposit Mobilization

The following are some reasons for why deposit mobilization is needed in developing countries like Nepal. The following points show the need for deposit mobilization.

) **Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different form with in the country.**

) **The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have can flow forwards buying unnecessary and luxury goods. So, the government also should help to collect more deposit, sleeping legal procedures to control unnecessary expenditures.**

) Commercial banks are playing a Vital role for national development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loans not only in productive sectors, but also in other sectors like food, grains, gold and silver etc. Though these loans are traditional in nature and are not helpful to increase productivity, but it helps, to some extent, to mobilize bank deposit.

Deposit mobilization plays a Vital role for the economic development of an underdeveloped and developing country rather than developed one. It is because a developed country does not feel the need of deposit mobilization for capital formation due to developed capital markets in every sector. But, in an under developed country and developing country, deposit mobilization plays an immense role in such countries. Low national income, low per capita income, lack of technical knowledge, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical condition etc are the main problems of developing countries like Nepal. Again, instead of the development of a particular sector, the development of every sector on side and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of and under developed country. We can take this in our country's present context.

2.2.5 Factors Affecting Deposit Mobilization

There are various factors like money supply, inflation, other financial instruments and interest rate and branch expansion which affect deposit collection. These factors should be considered while making

the policies regarding deposit mobilization, among all these factors, only interest rate and branch expansion has taken for the study.

a) Interest Rate

For the commercial banks, interest rate refers the amount paid on deposit. The main objective of the interest rate on deposit is to attract the scattered savings. Therefore, the proper interest rate plays vital role for collecting deposits. According to the neo classical monetary theory interest rate is a factor, which brings demand for investment and willingness to save into equilibrium with each other. Investment represents the demand for resources and saving represents the supply. While interest is the price of resources, at which two are equated. Interest is an important factor to mobilize savings. In this sense, interest is regarded as the reward for saving. Regarding the definition of interest rate, it is interesting to not some conflicting agreements of two groups. The classical idea was that interest rate was the reward for not spending i.e. it is the inducement to refrain for not spending. In opponent contrast, the Keynesian doctrine is that interest is the reward for not boarding i.e. it is the inducement to part with liquidity.

b) Branch Expansion

To build up a financial infrastructure geographically and functionally diverse to help in the resource mobilization to meet the expanding and emerging needs of developing economy. It has been also felt that timely and adequate credit support should be made available for the sector, which hither to be neglected, so that the system reached out to the small town and the rural and semi urban area. For this purpose, the extension of geographical spread of

banking was given prime importance. It acted as an instrument of deposit mobilization on was given prime importance. It acted as an instrument of deposit mobilization on the one hand and provision of credit to the rural hinterland of the economy on the other. The larger number of people of that country saves more money.

2.3 Reviews from Relevant Studies

In this part a review of past studies are conducted by other researchers which are relevant to the topic.

2.3.1 Review of Some additional Books

According to Sharma and Ghosal (1965), in their book *“Economic Growth and Commercial Banking in the Development of Economy”* states that insurance of bank deposits, creation of proper atmosphere can increase deposits and the development of capital markets with the help of banks will prove effective in mobilizing the available floating resources in the country.

Keynes (1936), in his book, *“The General Theory of Employment, Interest and Money”*, has mentioned the following the viewpoints about the rate of interest. According to him, community’s liquidity preferences and quantity of money determine the level and rate of interest. These three things liquidity preferences, quantity of money and rate of interest are negatively correlated. At low rate of interest, the liquidity preference of community is high and it is low at high rate of interest.

According to the modern view, interest rate determination depends upon the investment, saving, liquidity preferences and supply of money. This view is a combination of previous theories. It has

expressed both monetary and non-monetary factors. In this opinion, the marginal efficiency of capital to the rate of interest and investment is equal to the desired volume of saving. Thus the Total Investment = Total Saving or $I = S$.

Where,

$I = \text{Investment and } S = \text{Savings.}$

Keynes in his argument said, Interest directly form from the supply and demand of money itself rather that the use of money. Liquidity is the unique characteristics of money and calls the demand of money to hold liquidity preferences. It is this, which requires the payment of interest. The marginal efficiency of capital determines the degree of liquidity preference and the rate of investment and interest there on.

The views of some economists on interest rates differ. According to these few, the interest rate is a major determinant, and also traced out the time preference in the determination of interest rate. So, the interest rate must be taken as an important factor of economic policies of developing or less developed countries.

Classical economists have their own say that interest rate depend upon the level of saving and the demand for real investment interest is that point where both the amount of saving and demand of investment are equal.

According to Neo-classical economists, demand and supply, factors are important in the determination of interest rate structure. The supply of loanable fund is composed of real saving and credit money and demand of the loanable found is composed of the demand for the investment funds. The interplay monetary and non-monetary forces determine the rate of interest.

Deveet (2001), in his book, "*Modern Economic Theory*", mentioned Loanable funds theory of interest. The loanable funds theories believed in time preference explanation

of how interest arises. According to loanable funds theory, the interest is the price paid for the use of loanable funds. Like the classical and Keynesian Theories of Interest, it is also a demand and supply theory. It asserts that rate of interest is determined by the equilibrium between demand and supply of loanable funds in the credit market. There are several sources of both supply and demand of loanable funds, which we discuss below.

Supply of loanable funds:

The supply of loanable funds is derived from four basic sources, namely:

- a) **Saving:** Saving by individuals or household constitutes the most important source of loanable funds. Any individual's and household's savings primarily depend upon the size of their income. But, given the level of income, savings vary at various rate of interest. More savings will be forthcoming at higher rate of interest and vice-versa.
- b) **Bank credit:** Another source of loanable funds is the banking system. Banks can create money and advance them to businessmen as loans. By contracting their lending, the banks can also reduce their amount of money. The bank's newly created money in a period, greatly adds to the supply of loan funds. The supply curve provided the banks are to some degree interest elastic. It varies with various rate of interest.
- c) **Disharding:** Labelled as another source of loanable funds, individuals may dishoard money form a hoarded stock, of a previous period. More stock will be dishoarded at higher rate of interest. Cash balances, lying idle in the past period, can become active balances in the present period and are available as loanable funds.
- d) **Disinvestments:** They are considered to be the opposite of investment. This happens due to structural changes or bad ventures and the existing stock of machines and other equipment is allowed to wear out without being replaced or the inventories are drawn below the level of previous period. When this happens, a part of the revenue from the sale of products, instead of going into capital replacement, flows into the market for loanable funds.

Demand for Loanable Funds:

The demands for loanable funds come mainly from three fields:

- a) Investments: this is the most important constituent of the total demand for loanable funds. The interest serves as the price of the loanable funds required to purchase the capital good. The demand for the loanable funds obviously is the rate of interest elastic.
- b) Hoarding: Those people who want to hoard money may make a demand for the loanable funds. It serves to satisfy their liquidity preferences. Hoarding signifies the people's desire to hold their savings as idle cash balances. The demand for hoarding money is "interest elastic." At a higher rate of interest, people will hold less money because much of the money will be lent to take advantage of the higher interest rates.
- c) Consumption: consumption serves the purpose of the second biggest demand for the loanable funds. Individuals or households want to borrow and demand loanable funds when they wish to make purchases in excess of their current incomes and cash resources.

2.3.2 Review of Journals and Articles

In this subject, effort has been made to examine and review of some of the related articles published in different economic journals, bulletins of World Bank, dissertation papers, newspapers, researchers view and findings towards fund mobilization and other related books.

Pradhan, (2000) in his article "*Deposit Mobilization, its problem and prospectus*" has presented that deposit is the life-blood of every financial institution like commercial bank, finance company, co-operative or non-government organization. He further adds in consideration of most of banks and finance companies, the latest figure does produce a strong feeling that serious review must be made of problems and prospectus of deposit sector.

The writer has highlighted following problems of Deposit Mobilization in Nepalese context:

-) Most of the Nepalese do not go for saving in institutional manner, due to the lack of good knowledge however; they are very much used of saving be it in the form of cash or ornaments.
-) No more mobilization and improvement of the employment of deposits and loan sectors.
-) Unavailability of the institutional services in rural areas.

The writer has also recommended for the prosperity of deposit mobilization which are as follows:

-) By cultivating the habit of using rural banking unit.
-) By providing sufficient institutional services in the rural areas.
-) By spreading sufficient co-operating to the rural areas of development mini branch services.
-) By adding service hour system to bank.
-) Nepal Rastra Bank could also organize training program to develop skilled manpower.

Shrestha (2006), in his article “*Banking deposit touches US \$ 3.67 billion*”, it is stated that cumulative deposits of the Nepali banking has gone up to touch US \$ 3.67 billion by the first quarter of the current Nepali fiscal year (July 16,2005- July 15, 2006) as per NRB.

The deposit mobilization was recorded at a growth rate of 9% as compared to the same period of last year and the cumulative deposit of commercial banks was recorded at US \$ 3.36 billion in the first quarter of last Nepali fiscal year.

Bankers attributed aggressive marketing such as announcement of promotional schemes with higher interest rate return to the rise in deposit mobilization and increased inflow of remittance also contributed in the growth. Likewise, loans and advances of the commercial banks have gone up by 10% to touch US \$2.32 billion during the same period of the current Nepali fiscal year, which was recorded at US \$2.1 billion in the same period of last year.

Sharma (2000), in his article entitled, “*Banking the future on competition*” found that all the commercial banks are establishing and operating in urban area, his achievements are:

-) Commercial banks are charging the higher rate of interest on lending.
-) Commercial banks are establishing and providing their services in urban areas only. They have not interested to establish in rural areas. Only Rastriya Banijya Bank and Nepal Bank Ltd. have branches in rural areas.
-) They do not properly analyse the credit system. The researcher further states that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

2.3.3 Review of Thesis

Before this study, various studies regarding the various aspects of commercial banks such as deposit mobilizing policy, financial performance, and investment policy, lending policy, interest rate structure, resource mobilization and capital structure have conducted several thesis works. Some of them, which are relevant for this study, are presented below:

Dangol (2003), a study made on the topics “*Impact of Interest Rate on Financial Performance of Commercial Bank*” concludes:

-) Most of the commercial banks contradict the general financial theories.
-) The relation between amount of deposit and interest rate on deposit, in general concept, must be positive. But deposits are increasing despite the clearest in the general level of interest. The result of such phenomenon is that there are fewer investment opportunities for the banking sectors as well as general investors.
-) The correlation between total amount of loan and the lending rate is negative and significant. However the change in the amount of loan flow is not proportionate with the change in the lending rate.
-) Correlation between interest rate and inflation is not significant.

Tandulkar (2003), in her thesis titled “*The Role of NRB in Deposit Mobilization of Commercial Bank*” has tried to find out the relation between Nepal Rastra Bank and commercial banks of Nepal. The directives issued by NRB have both positive and

negative impact on these commercial banks. A sound investment policy containing a portfolio will guarantee long term survival of a commercial bank. More she focuses on importance of bank in country's economy. It is source of capital formation she has drawn the conclusion that all new directives of NRB on commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. She had recommended the banks to minimise the bad loans ratio, creating the conducive environment for the revival of sick investment, formulate future strategies to solve problems.

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

Khatri (2005), in his thesis entitled "*Impacts of Interest Rates on Deposit Mobilization of Commercial Banks of Nepal*" with the main objective of:

-) To present the impacts of interest rate on deposit mobilization of commercial banks.**
-) To see the impact of interest rates of deposit on the deposit collected by the commercial banks.**
-) To see the deposit –credit margin ratio throughout the changed incurred in the interest rate by which one can see that how far the deposits have efficiently utilized.**

This study concern only a period of five years from the year ended 1997 to 2001. Only secondary data has analysed. Simple analytical statistical tools such as graph, percentage, Karl Pearson's coefficient

of correlation and the method of least square methods are adopted in this study. Similarly some strong accounting tools such as ratio analysis have also been used for financial analysis.

The writer found that the overall performances of commercial banks are satisfactory and Nepal Rastra Bank has to play more active role to enhance the operation. Liquidity position of the commercial banks has satisfactory. The interest rate has played important role in deposit mobilization of the bank. So the structure of interest rate should be changed according to the need to nation.

Pokharel (2006), a study made on the topics “*Determinants of Interest in Nepalese Financial Markets*” also give some ideas about the interest rates in Nepalese Markets. Though, this thesis tried to identify the factors that shape the interest rates in Nepalese markets, it also tried to explore the relationship between the interest rate, deposits, credit rates and inflation. Among different objectives, some objectives that match to this study are:

-) To show the relationship the liquidity position and interest rate on deposit and lending.
-) To identify the effect of inflation on interest rate charged and offered by various Nepalese financial institutions.
-) To identify the different methods used by Nepalese financial institutions to calculate interest on lending.

Shrestha (2006), in the research called “A Study on deposit mobilisation and utilization of commercial banks with special reference to Nepal Bank Limited” has specified, Nepal Bank Limited has been much efficient in the collection of resources from the people in both urban and rural area of the country. But in the progress of its utilization, they are still behind. There is a decrease in the ratio loans and investment deposits and a wide gap has existed between them.

The interest rate has played an important role in mobilizing and utilizing the resources of the bank. So, the structure of interest rate should be changed according to the need of the nation. Even though the function of commercial banks is to off short –term

loans for working capital but they collect fixed deposits. Thus they have capacity to offer medium and long-term credit and are found keeping deposits idle. Thus it can be said that the Nepal bank Limited is not playing active role to utilize the collected savings according to the borrowers and national requirement of long term and medium term investments.

Another study conducted by Pokhrel (2007), on the “*Interest rate structure and its relation with deposit, lending and inflation in Nepal*” concludes:

-) The interest rate on both deposit and lending of all sample banks are in decreasing trend.
-) The saving deposit amount and saving interest rate have negative relationship.
-) Fixed deposit amount and fixed interest rate shows negative relationship.
-) One of the variables that affect the demand of fund (lending activity) is lending interest rate.
-) The relationship between interest rate on deposit and inflation rate is positive.
-) The interest rate on lending and inflation rate has low degree of positive correlation coefficient.

Karki (2007), on his thesis entitled “*Deposit mobilization of commercial banks in Nepal*” with the main objectives of:

-) To examine how far the rate of interest influence the credit and deposit of RBB Janakpur branch.**
-) To examine how far the bank branch is successful to accumulate the deposits with special reference to RBA Janakpur Branch.**
-) To examine how far the deposit of RBB Janakpur Branch is efficiently utilised.**

This study is based on secondary data. In his thesis Karl Pearson’s formula of coefficient of correlation has been used to compare various variables. In this thesis the writer found that the deposit collection of Janakpur Branch is not satisfactory. He also found that

the activities of RBB Janakpur Branch for mobilizing deposits seem to be idle. The bank has not tried to find out the new sectors of investment. The central office has not given authority to the branch to the branch manager to advance or to invest govt-securities. The writer further found that the bank provides short term credit and the lending process is also lengthy.

The researcher suggested that the bank should reach different sectors for loan and advances and also suggested that RBB Janakpur Branch should extend loan term as well as medium term credit in addition to short term credit.

2.4 Research Gap

Previous researchers covered all the commercial banks and some were either on case study between two commercial banks or some were on the particular bank branch. But this study focused on some particular sample banks. This study covers the recent and an updated data of all the sample banks. Moreover this study has not been done by previous researcher as separately. Thus, to fill the gap, this study had been conducted.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the procedure by which researcher go about their work of describing, explaining and predicting phenomenon. In other words, research methodology describes methods and process applied in the entire aspect of the study. In this

chapter, efforts have been made to present and explain the specific research design for the sake of attaining the research objective.

This chapter has been organised into five sections. Section one presents the research design, while section two describes the nature, sources of data. Section three describes the selection of enterprises.

Section four explains the methods of analysis employed in this study. Similarly, the definition of key terms and limitations of the study are described in the last two sections.

3.2 Research Design

Research design is the plan, structure and strategy of the investigation conceived as to obtain answers to research questions and to control variance. The research design is an integrated frame that guides the researcher in planning and executing the research work (Wolf and Pant, 2005). This study follows descriptive research design. Although descriptive research cannot predict and control conditions and events, it contributes to science primarily by building a foundation of facts upon which exploratory hypotheses may be constructed, by checking the validity of existing theories and by directing attention toward alternative hypothesis which better fit the facts.

Descriptive approaches have been adopted mainly for describing the situation and conduct a survey of opinions. Analytical approach has been followed to analyse the related data and the relationship among variables.

3.3 Population and Sample

There are altogether 26 commercial banks operating in Nepal. Due to the time and resource factors, it is not possible to study all of them. So, out of 26 commercial banks 10 banks are taken as the sample for the study.

The sample banks are

-) Nabil Bank Limited
-) Standard Chartered Bank Nepal limited
-) Kumari Bank Limited
-) Nepal Credit and Commerce Bank Limited
-) Himalayan Bank Limited
-) Everest Bank Limited
-) Rastriya Banijya Bank
-) Nepal Investment Bank Limited
-) Bank Of Kathmandu Limited
-) Nepal Industry and Commerce Bank Limited

Table 3.1
Names of the commercial banks and their dates
Taken into consideration

S.N.	<i>Name of the Commercial Bank</i>	Study Period (Mid-July)	No. of Observations
1.	Nabil Bank Limited	2002-2009	8
2.	Nepal Investment Bank	2002-2009	8
3.	Bank of Kathmandu Limited	2002-2009	8
4.	Nepal Credit & Commerce bank	2002-2009	8
5.	Kumari Bank Limited	2002-2009	8
6.	Nepal Industrial & Commerce Bank	2002-2009	8
7.	Standard Chartered Bank Nepal	2002-2009	8
8.	Himalayan Bank Limited	2002-2009	8
9.	Everest Bank Limited	2002-2009	8
10.	Rastriya Banijya Bank	2002-2009	8
	Total number of observations		80

3.4 Data Collection Procedure

The research is based on secondary data. These secondary data are collected mainly from sources like annual reports, prospectus published bulletins, news paper, journal internet and other sources. Secondary data are collected from various publications of concerning organizations from Nepal Rastra Bank and even from Websites of various banks. The research work has covered a period of eight years i.e., FY 2001/2002 to FY 2008/2009.

3.5 Data Processing and Presentation

The information or data obtained from different sources will be in raw form. From that information direct, presentation is not possible. So it is necessary to process data and converts it into require form. After then only the data are presented for this study. This process is called data processing. For this study only required data are taken from the secondary (Banks' publication) and presented. For presentation different figures and tables are used. Similarly graphical presentation is also made. So far as the computation is concerned, it has been done with the help of scientific calculator and computer software program.

3.6 Tools for Data Analysis

The analysis of data is done according to pattern of data available and felt necessity. This study requires more statistical tools rather than financial tools for analysis and presentation. So emphasis is given on statistical tools and some financial tools are also used to meet the objectives of the study.

3.6.1 Statistical Tools

Arithmetic Mean $\overline{(X)}$

Arithmetic mean is a given set of observation is their sum divided by the number of observation. In such case all items are equally

important. It depicts the characteristic of whole group. It is an envoy of the entire mass of homogeneous data. Generally the average value lies somewhere in between the extremes i.e. the largest and the smallest items. Generally mean indicates the measure of the middle of the set and. In other words, it is just the sum of all the observations divided by the number of observations. During analysis, mean have been used as synonyms to equal weighted mean. It is calculated as follows:

$$\overline{(X)} = \frac{\Sigma X}{N}$$

Where,

X = Sum of the sizes of items

N = Number of items

Standard deviation (σ)

Karl Pearson first introduced the concept of standard deviation in 1983. Standard deviation is the positive square root of the arithmetic average of the squares of all deviation measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. Standard deviation is an important and widely used measure of dispersion. The greater the amount of dispersion is the greater the standard deviation. The greater the standard deviation greater will be the magnitude of the value from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. Standard deviation is denoted by a Greek Letter ' σ ' (sigma) and is calculated as follows.

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\Sigma X^2}{N} - \left(\frac{\Sigma X}{N}\right)^2}$$

Where,

X = Sum of the sizes of items

N = Number of items

Coefficient of Variation (C.V.)

It is the relative measurement of risk with return. It measures the risk per unit of return. Standard deviation is the absolute measure of dispersion. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the coefficient of variation (C.V.). If \overline{X} be the arithmetic mean and (σ) be the standard deviation of the distribution, then the C.V. is defined by

$$C.V. = \frac{\sigma}{\overline{X}} \times 100$$

It is independent of unit. So, two or more than two distributions can be compared with the help of C.V. for their variability. Less the C.V., more will be the uniformity; consistency etc. and more the C.V. less will be the uniformity, consistency etc.

Correlation Coefficient (r)

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number which indicates to what extent two variables are related with each other and to what extent variables is one leads to the variation in the other.

Correlation may be positive or negative which lies between ± 1 . Simple correlation between interest rate on deposit and deposit amount is computed in this thesis. The correlation between interest rate on deposit and deposit amount is positive. For our study following reference is used.

) Correlation may be positive or negative and ranges from +1 to - 1. When $r = +1$ there is perfect positive correlation, when $r = -1$ there is perfect negative correlation, when $r = 0$ there is no correlation and when $r < 0.5$ then there is low degree of correlation.

-) When 'r' lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.
-) When 'r' lies between 0.5 to 0.6999 there is a moderate degree of correlation.

The correlation coefficient can be calculated as:

$$r_{12} = \frac{n\sum X_1X_2 - \sum X_1\sum X_2}{\sqrt{n\sum X_1^2 - (\sum X_1)^2} \sqrt{n\sum X_2^2 - (\sum X_2)^2}}$$

Where,

n = no. of observation

X1 = Dependent Variable

X2 = Independent Variable

Coefficient of Determination (r^2)

The coefficient of determination is the primary way to measure the extent or strength of the association that exists between two variables X_1 and X_2 . It refers to measure at the total variance in a dependant variable that is explained by its linear relationship to and independent variance. The coefficient of determination is denoted by r^2 and the value lies between zero and infinity. The close to infinity means greater the explanatory power. A value or one can occur only is the in explained diagram falls exactly on the regression line. The r^2 is always a positive number. It can't tell whatever the square of the simple correlation coefficient is called coefficient of determination and it is very useful in interpreting the value of simple correlation coefficient. The main significance of the coefficient of determination is to represent the portion of total variations due to independent variable.

$$\text{Coefficient of determination } (r^2_{12}) = (r_{12})^2$$

Trend Analysis

The term “trend analysis” refers to the concept of collecting information and attempting to spot a pattern, or trend, in the information. Forecasting is an essential tool in any decision-making.

Trend analysis is adopted to ascertain future. The trend analysis is taken as a tool to forecast the future position of commercial banks.

The equation used to obtain the trend values is:

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

Where,

Y = dependent variable

x = independent variable

a = intercept of the line

b = slope of the trend line

The values of the constants a and b can be determined by using following formulas

$$a = \frac{\sum y}{N} \quad b = \frac{\sum xy}{\sum x^2}$$

Variables

Variables are characteristics of person, things, groups; object etc. a variable is thus a symbol to which numerals are assigned. In other words, a variable can take on many values. Interest rate, investment, deposit and loan and advances are variables under study.

Dependent Variable

A variable is called dependent variable if its values depend upon the other variables. The researcher's purpose is to study, analyse and predict the variability in the dependent variable. Here dependent variables are:

-) **Deposit**
-) **Investment &**
-) **Loan and Advances**

Independent Variable

A variable is called independent variable if its value is not influenced by any other variable under study. Any change in the independent variable either positive or negative, leads to change in the dependent variable. Thus, the independent variables are those, which are used as the basis of prediction and the dependent variable is the variable that is being predicted. Here independent variables are different fiscal years.

3.6.2 Financial Tools

A single figure by itself has no meaning. But when expressed in terms of related figure, it yields significant result. Financial tools are used to examine the strength and weakness of performance of the company. In this study, financial tools like interest rate spread and ratios have been used. Ratio is the mathematical relationship between two accounting figures. Ratio analysis is used to compare a firm's financial performance and status to that of other firm's or to it overtime. Therefore only those ratios have been covered in this study as required by the study.

Loan and advance to Total Deposit Ratio

The loan and advance to deposit ratio is another ratio used in the study. The ratio analyses the amount of loans that have been given out as loans and advances from all the deposits obtained. The deposits are mobilised in various places and funding of loans and advances is one of them. The ratio analyses to find out how successfully the banks are utilizing their total deposit on loan and advances for profit generating purpose. A ratio helps us showing the relationship between loans and advances which are granted and the total deposit collected by the bank. A high ratio indicates better mobilization of collected deposit and vice versa. It should be noted that too high ratio may not be better from liquidity point of view.

This ratio is calculated by dividing loan and advances by total deposits. This can be stated as below:

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

Investment to Deposit Ratio

Investment is one of the major sources of earning of profit. This ratio is used to determine how much of the deposits are utilised as investments by the commercial bank. The ratio determines the amount of investments that have come from the deposits. The investments can be in various sectors such as government securities and treasury bills. This ratio is calculated by using following formula

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

Where, total investment includes investment on government securities, investment on debentures and bonds, shares in subsidiary companies, shares in other companies and other investments.

Interest Income to Loan & Advances Ratio

Interest is also one of the major sources of income for the financial institution. Interest income is generated from giving loan & advances to different sector. This ratio indicates the financial position of the banks. Higher the ratio indicates good financial position and vice versa. This ratio can be calculated by using following formula.

$$\text{Interest Income to Loan and Advances Ratio} = \frac{\text{Total Interest Income}}{\text{Total Loan and Advances}}$$

Interest Expenses to Total Deposit & Borrowings Ratio

The major expenses of the commercial banks are interest on deposits used to generate revenue. The bank's total expenses consists the large

percentage of interest expenses on deposits. The interest expenses incur when the interest owe on short-term borrowings in the money market-mainly borrowings of central funds from other banks and security repurchase agreements. The interest expenses also consists the expenses paid on subordinated capital notes and debentures and other borrowed fund. This ratio shows the how effectively the banks are utilizing their funds for interest expenses according to deposit collection. This ratio can be calculated by using following formula:

$$\text{Interest Expenses to Deposit and Borrowings Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Deposit and Borrowings}}$$

Interest Rate Spread

The interest rate spread measures the effectiveness of the bank in the intermediation function, where the bank borrows the fund at one lower level of interest rate and lend at another higher level of interest rate. The spread also use to identify the intensity of competition among banks in the market. Higher positive interest spread shows the suessfulness of the bank in collecting the funds at cheaper rate and granting them at higher rate. The higher interest rate spread is not possible for most banks in the time of strong competition. In this case, bank management seeks to look for other new revenue generating services to its clients to make up the decreased spread. The interest rate spread is the difference in the interest rate between the lending rate and the deposit rate. The interest rate can be calculated as follow:

$$\text{Interest rate spread} = \text{Interest rate on lending} - \text{Interest Rate on deposit.}$$

CHAPTER IV

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

In this section, all the collected data are presented in the filtered form and are analysed thoroughly. This is the one of the major chapter of this study because it includes detail analysis and interpretation of data from which concrete result of Nepalese market can be obtained. In this chapter the relevant data and information necessary for the study are presented and analysed keeping the objectives set in mind. This chapter consists of various calculations made for the analysis of interest rate and its effects on deposit of sample bank. This chapter consists of detail analysis and interpretation of data relating to interest rate on deposit, deposit collection amount of each selected organization from Nepalese financial system. This chapter is categorized in three parts presentation, analysis and interpretation. The analysis is based on secondary data. In presentation section data are presented in terms of table, graph chart of figures, according to need. The presented data are then analysed using different statistical tools which are mentioned in chapter three. At last the results of analysis are interpreted. For our simplicity, in this thesis, presentation, analysis and interpretation of data are made according to the nature. After then, the relationship between interest rate and deposit amount is made.

In the previous chapters, we discussed about the impact of interest rates on funds mobilisation of commercial banks, historical background of interest rate and NRB's policies regarding it. Likewise in second chapter we discussed about the previous studies through literature review and in the subsequent chapter, we presented the methods that have been used to analyse the information. This chapter is the heart of the study. This chapter consist of relevant data and information necessary for the study. In this chapter the analysis part is presented in detail. This chapter is mainly

concerned with the presentation of collected data in suitable tables and diagrams as well as the analysis and presentation of these collected data in a suitable manner using various statistical and financial tools. Different types of ratios have been calculated to reach in the conclusion of the study.

4.2 Overview of Nepalese Financial Sector

The Nepalese financial sector is composed of Nepal Rastra Bank, commercial banks, development banks, finance companies, micro-credit development banks, cooperative financial institutions, non-governmental organisations performing limited banking activities and other financial institutions such as insurance companies, employee’s provident fund, citizen investment trust, postal saving offices and Nepal stock exchange. During the last two and half decades the number of financial institutions has grown significantly.

At the beginning of the 1985s there were only three commercial banks and two development banks in the country. After the induction of the economic liberation policy, particularly the financial sector liberalisation, it provided the impetus in the establishment of new bank and non-bank financial institutions. Consequently, by the end of mid-July 2009 altogether 254 banks and non bank financial institutions licensed by NRB are in operation. Out of them, 26 are “A” class commercial banks, 63 “B” class development banks, 77 “C” class finance companies and 16 “D” class micro-credit development banks 16 saving and credit cooperatives and 45 NGOs.

Table 4.1

Growth of Financial Institutions in Nepal from 1985 to 2009

Type of Financial Institutions/Year	1985	1990	1995	2000	2005	2009
Commercial Banks	3	5	10	13	17	26
Development Banks	2	2	3	7	26	63

Finance Companies	-	-	21	45	60	77
Micro-credit Development Banks	-	-	4	7	11	16
Saving and Credit Cooperatives	-	-	6	19	20	16
NGOs (limited banking activities)	-	-	-	7	47	45
Total	5	7	44	98	181	243
Percentage Growth (%)	-	40	528.6	122.7	84.7	34.25

Source: Banking and Financial Statistics, NRB

4.3 Analysis of Deposit and Interest Rate position

In this section, detail study is made about deposit amount and interest rate of sample banks. Deposit is that amount which is deposited by savers in commercial banks of other financial institutions for safe keeping as well as for earning the interest from it. Deposits are the main sources of resources to meet growing demands of financial existence. The existence of commercial banks basically depends upon the mobilization of deposits. The commercial banks may function when they have adequate deposits. Higher the volume of deposit, higher will be the volume of profit. So, a commercial bank first of all tries to mobilize as much deposit as possible. One of the main objectives of commercial bank is to safeguard the amount deposited by the general deposits on its mobilization in an effective manner. The following tables and figures show the situation of commercial banks in relation to deposit collection and its utilization in the recent years.

4.3.1 Deposit and Interest Rate Position of SCBL

The following table and figure show the amt of deposit and interest rate on deposit of standard chartered Bank Ltd. throughout the study period of 2001/2002 to 2008/2009. The table also presents the percentage change in deposit amount of SCBL during the study period.

Table 4.2
Deposit and Interest rate Position of SCBL

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest Rate (%)
2001/02	15835.7	-	2.89
2002/03	18755.5	18.43	2.82
2003/04	21161.4	12.83	1.85
2004/05	19344	-5.89	1.72
2005/06	23050.5	19.16	1.75
2006/07	24640.3	6.9	1.79
2007/08	29743.9	20.71	1.75
2008/09	35871.7	20.60	1.63

Source: Annual Reports of SCBL

Figure 4-1 Deposit Amount of SCBL during different FY

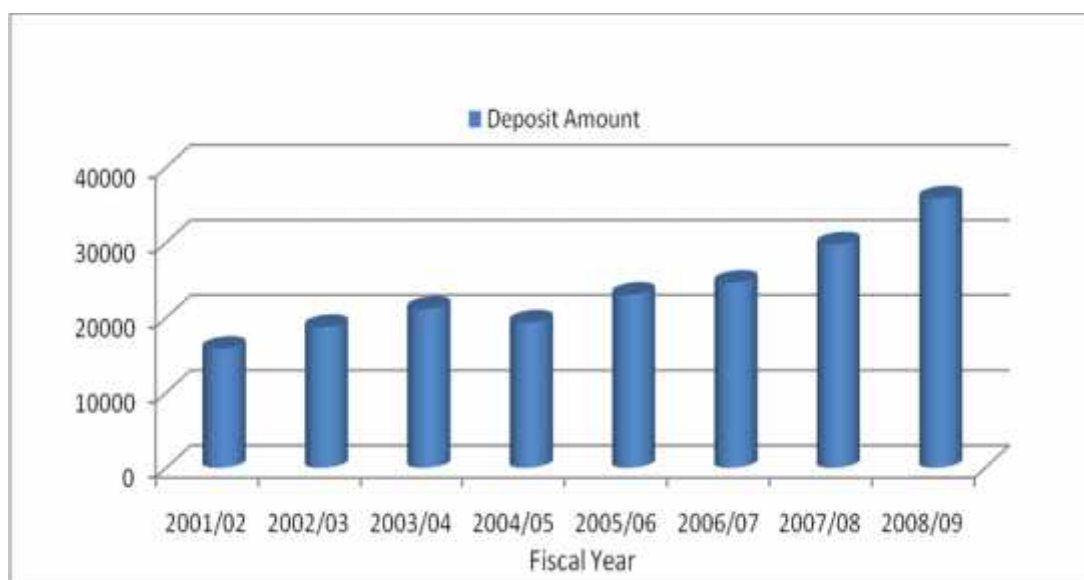
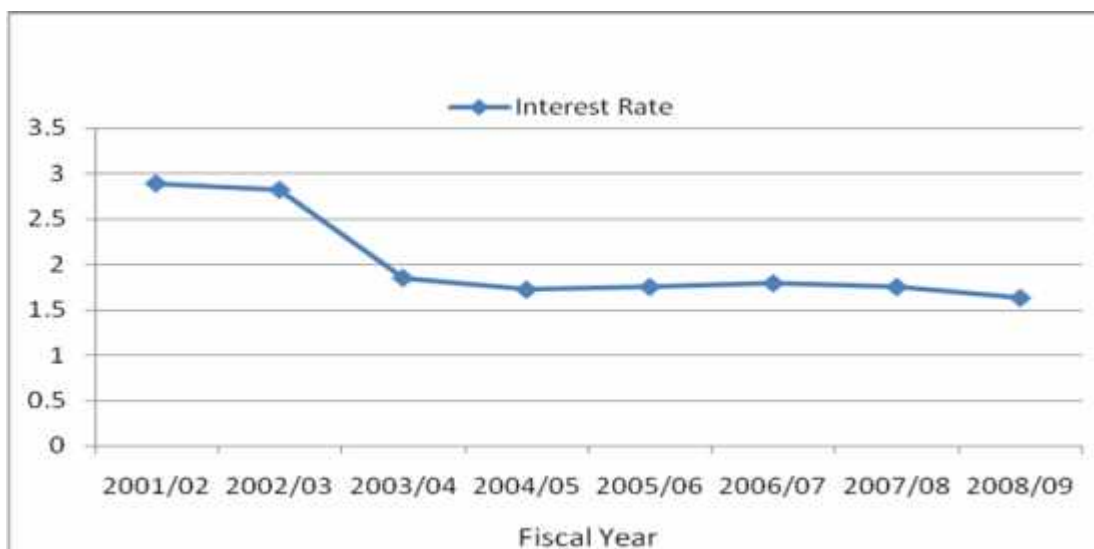


Figure 4-2 Interest Rate of SCBL on Deposit during Different FY



The table 4.2 and figures 4-1 and 4-2 show the deposit amount and interest rate on deposit of standard chartered bank on different time period. For this study 2001/2002 is taken as initial fiscal year and 2008/2009 as a final fiscal year. This above data shows the increasing tendency of deposit amount but decreasing tendency of interest rate. Interest rate on deposit in the beginning year was 2.89% and decreased to 1.63% in 2008/09.

4.3.2 Deposit and Interest Rate Position of KBL

The following table and figures show the interest rate on deposit and amt of deposit collected by Kumari Bank Ltd. throughout the study period of 2001/2002 to 2008/2009. The table also presents the percentage change in deposit amount of KBL during the study period.

Table 4.3
Deposit and Interest Rate Position of KBL

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest rate (%)
2001/02	1180	-	4.57
2002/03	2513.1	112.97	4.38
2003/04	4816.5	91.66	3.79
2004/05	6270.1	30.18	3.29
2005/06	7800.4	24.41	3.48

2006/07	10560	35.38	3.07
2007/08	12780.1	21.02	4.01
2008/09	15710.9	22.93	5.81

Source: Annual Reports of KBL

Figure 4-3 Deposit Amount of KBL during Different FY

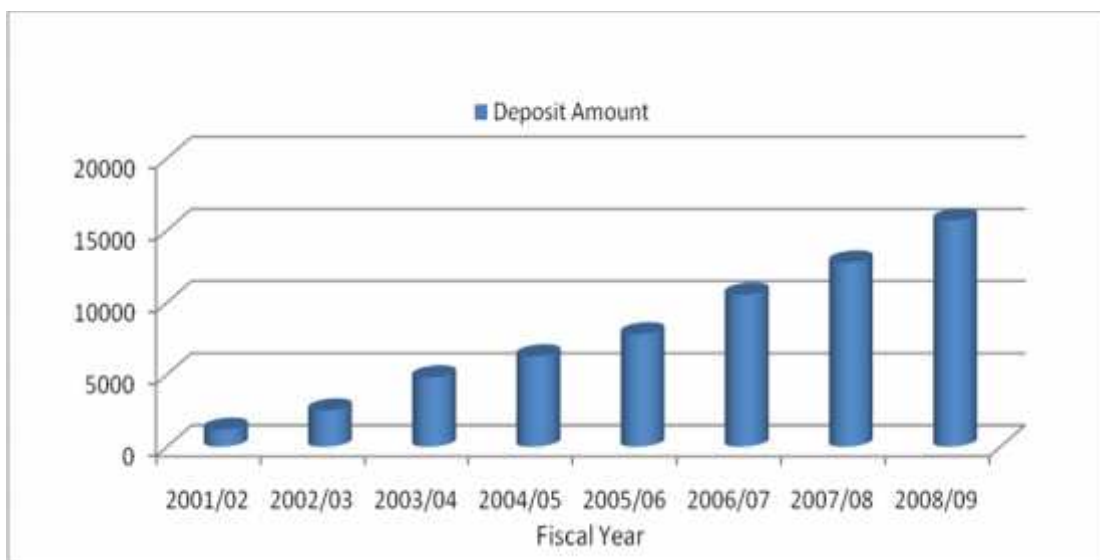
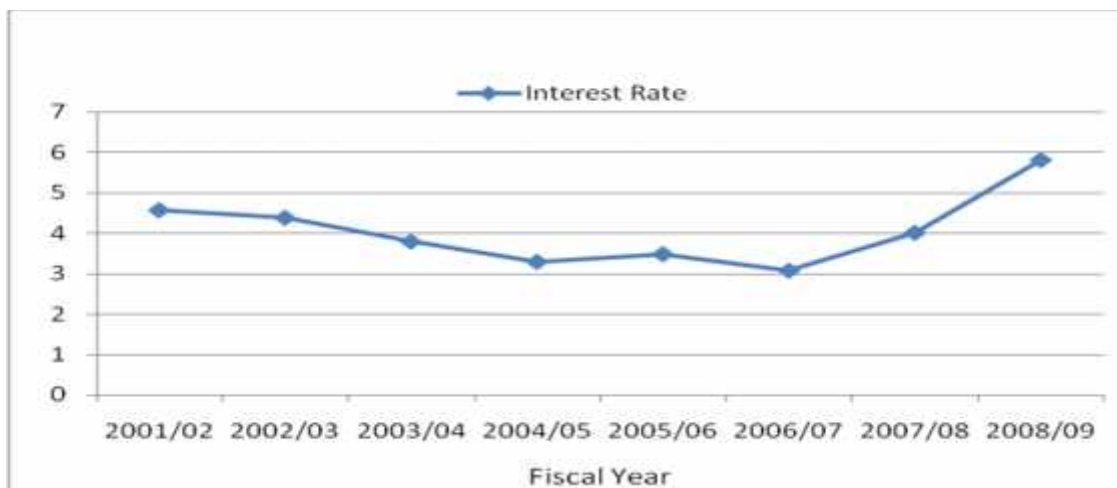


Figure 4-4 Interest Rate of KBL on Deposit during Different FY



The table 4.3 and figures 4-3 and 4-4 show the deposit amount and interest rate of deposit of different fiscal years. The above data of deposit amount shows the increasing tendency of deposit collection. In fiscal year 2001/02 the bank was collected the amount of Rs1180 million but it has increased to 15710.9 in fiscal year

2008/09.it has happened due to increased in interest rate. Interest rate is in decreasing trend up to fiscal year 2004/05 after that increased rate is in increasing trend.

4.3.3 Deposit and Interest Rate Position of BOK

The following table and figures show the interest rate and amt of deposit collection by Bank of Kathmandu Ltd. throughout the study period of 2001/02 to 2008/09. The table also presents the percentage change in deposit amount of BOK during the study period.

Table 4.4
Deposit and Interest Rate Position of BOK

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest rate (%)
2001/02	5735.9	-	4.75
2002/03	6169.6	7.56	4.02
2003/04	7741.6	25.48	3.38
2004/05	8942.8	15.52	3.03
2005/06	10429.3	16.62	3.07
2006/07	12358.6	18.50	2.64
2007/08	15833.74	28.12	2.78
2008/09	18083.98	14.21	3.12

Source: Annual Reports of BOK

Figure 4-5 Deposit Amount of BOK during Different FY

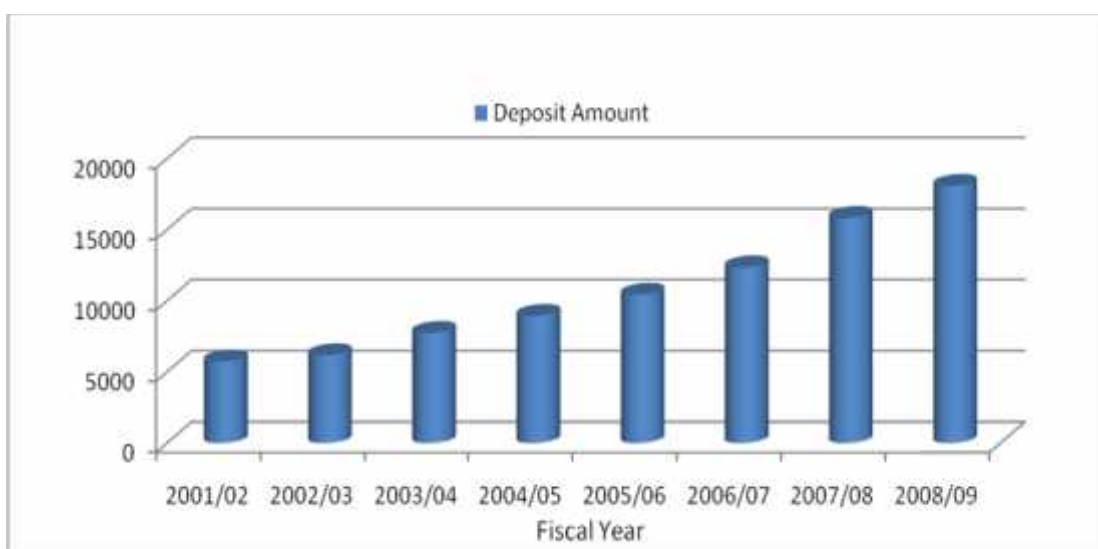
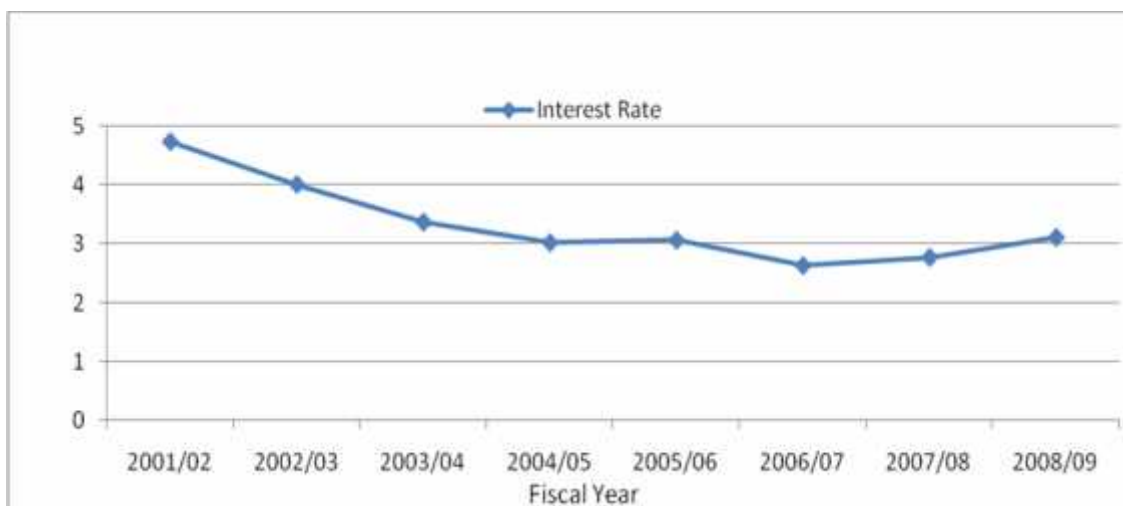


Figure 4-6 Interest Rate of BOK on Deposit during Different FY



The table 4.4 and figures 4-5 and 4-6 show the interest rate and deposit position of BOK. The position of deposit amount is in increasing trend. The deposit amount was 5735.9 million rupees in fiscal year 2001/02 but it has increased to 18083.98 million rupees in 2008/09, which is around 315 percent increase. It means the deposit amount of BOK has been increased substantially during the study period. But interest rate is in decreasing trend. It means there is not positive relation between interest rate and deposit amount.

4.3.4 Deposit and Interest Rate Position of EBL

The following table and figures show the interest rate and amt of deposit collection by Everest Bank Ltd. throughout the study period of 2001/02 to 2008/09. The table also presents the percentage change in deposit amount of EBL during the study period.

Table 4.5
Deposit and Interest Rate Position of EBL

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest rate (%)
2001/02	5461.1	-	5.34
2002/03	6694.9	22.59	4.5
2003/04	8064	20.45	2.79
2004/05	10097.8	25.22	4.5

2005/06	13802.5	36.69	3.5
2006/07	19097.7	38.36	3.28
2007/08	23976.3	25.55	2.82
2008/09	33322.9	38.98	3.52

Source: Annual Reports of EBL

Figure 4-7 Deposit Amount of EBL during Different FY

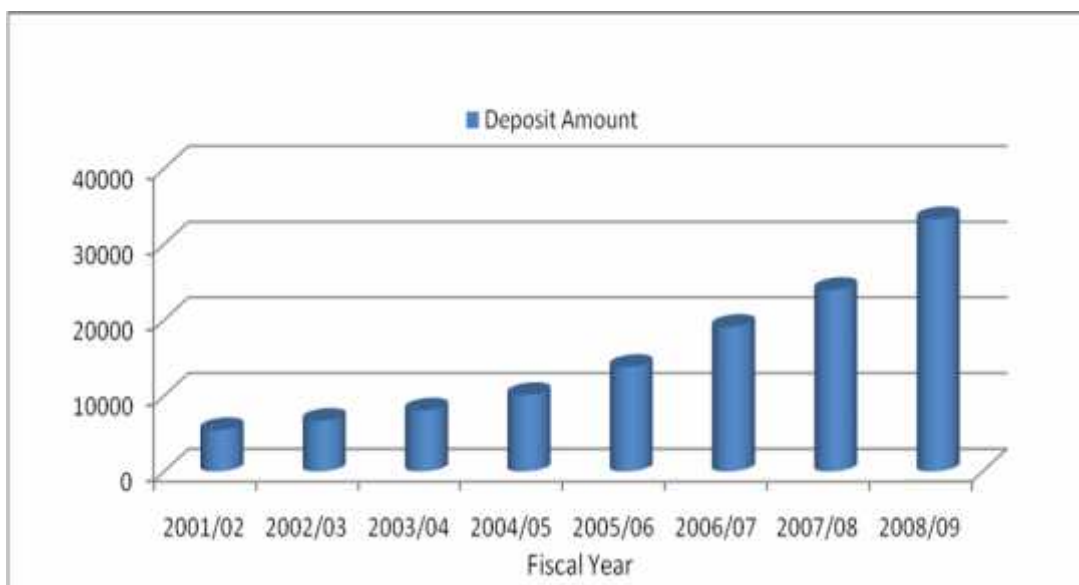
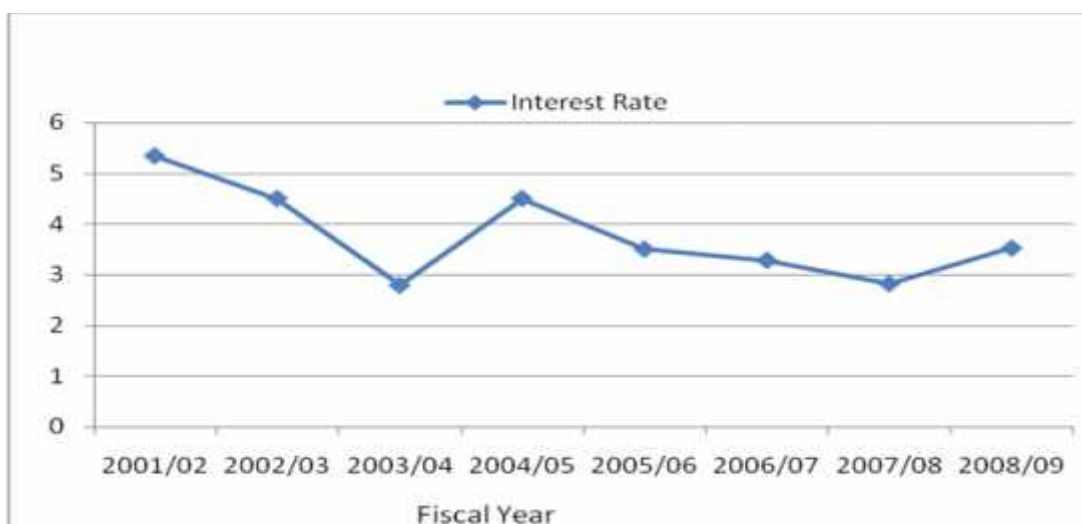


Figure 4-8 Interest Rate of EBL on Deposit during Different FY



The table 4.5 and figures 4-7 and 4-8 show the total deposit amount of EBL during the study period. The amount of total deposit by EBL during the study period is in

increasing trend. The deposit amount was 5461.1 million rupees in 2002 and amount increased to 33322.9 million rupees in 2009, which is around 600 percent increase. It means the deposit amount of EBL has been increased substantially during the study period. Till 2007 the amount of deposit is increased in increasing rate. In 2008 deposit is increased in decreasing rate but in 2009 in increasing rate. In first three fiscal years interest rate is decreasing then after interest rate is increased in 2004/05. But after that again interest rate is also decreased. It means here is also not positive relation between interest rate and deposit amount.

4.3.5 Deposit and Interest Rate Position of NABIL

The following table and figures show the interest rate and amt of deposit collection by NABIL Bank Ltd. throughout the study period of 2001/2002 to 2008/2009. The table also presents the percentage change in deposit amount of NABIL during the study period.

Table 4.6
Deposit and Interest Rate Position of NABIL

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest rate (%)
2001/02	15370.6	-	3.45
2002/03	13437.7	-12.58	3.34
2003/04	14098	4.91	3.2
2004/05	14586.8	3.47	2.8
2005/06	19348.4	32.64	3.23
2006/07	23342.4	20.64	2.81
2007/08	31915.048	36.73	2.69
2008/09	37348.26	17.02	4.16

Source: Annual Reports of NABIL

Figure 4-9 Deposit Amount of NABIL during Different FY

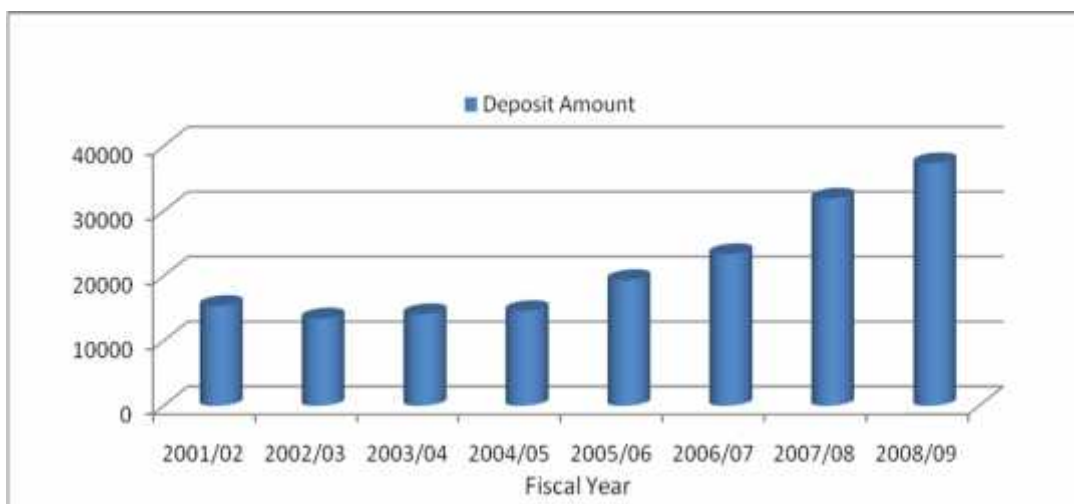
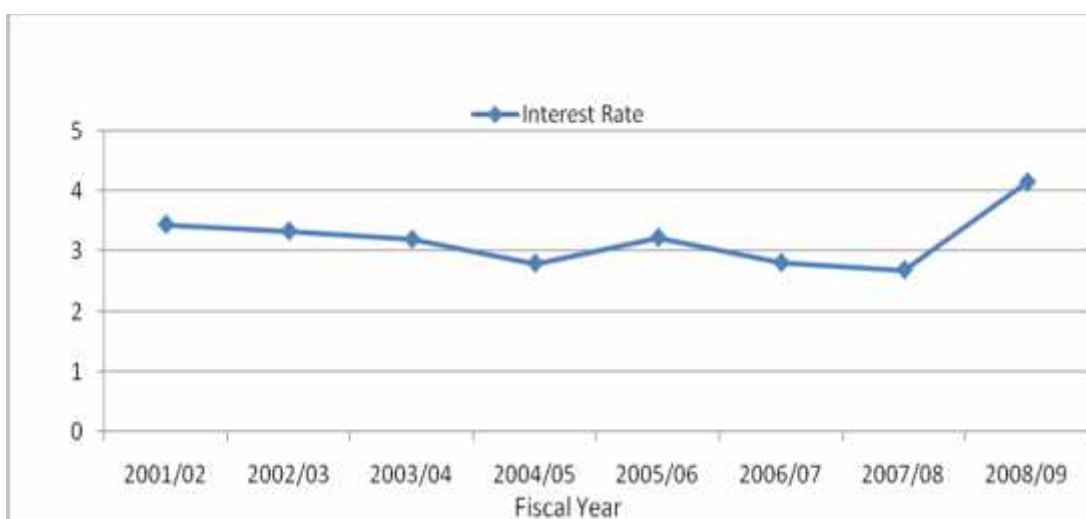


Figure 4-10 Interest Rate of NABIL on Deposit during Different FY



The table 4.6 and figures 4-9 and 4-10 show the deposit and interest rate trend of NABIL Bank. The deposit amount of the bank is in increasing trend. But the deposit amount in fiscal year 2002/03 is decreased by 12.58% then after it started to increase. In 2003/04 it is increased by 4.91% then after deposit is increased but in decreasing rate in 2004/05. After this deposit is highly increased till 2008/09. Interest rate in first fiscal year is 3.45% then it is in decreasing trend till fiscal year 2004/05 then after interest rate is increased in 2005/06. After that interest rate is in decreasing in another two fiscal year. But in last fiscal year interest rate is increased to 4.16%. Here also combination of interest rate and deposit also not seems good.

4.3.6 Deposit and Interest Rate Position of NCC

The following table and figures show the interest rate and amt of deposit collection by Nepal Commerce and Credit Bank Ltd. throughout the study period of 2001/2002 to 2008/2009. The table also presents the percentage change in deposit amount of NCC during the study period.

Table 4.7
Deposit and Interest Rate Position of NCC

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest rate (%)
2001/02	3709	-	5.36
2002/03	4294.1	15.78	4.84
2003/04	5959.6	38.79	4.84
2004/05	6630.1	11.25	4.66
2005/06	6619.5	-0.16	4.7
2006/07	6500.3	-1.8	4.65
2007/08	7320.24	12.61	4.19
2008/09	9127.75	24.69	4.34

Source: Annual Reports of NCC

Figure 4-11 Deposit Amount of NCC during Different FY

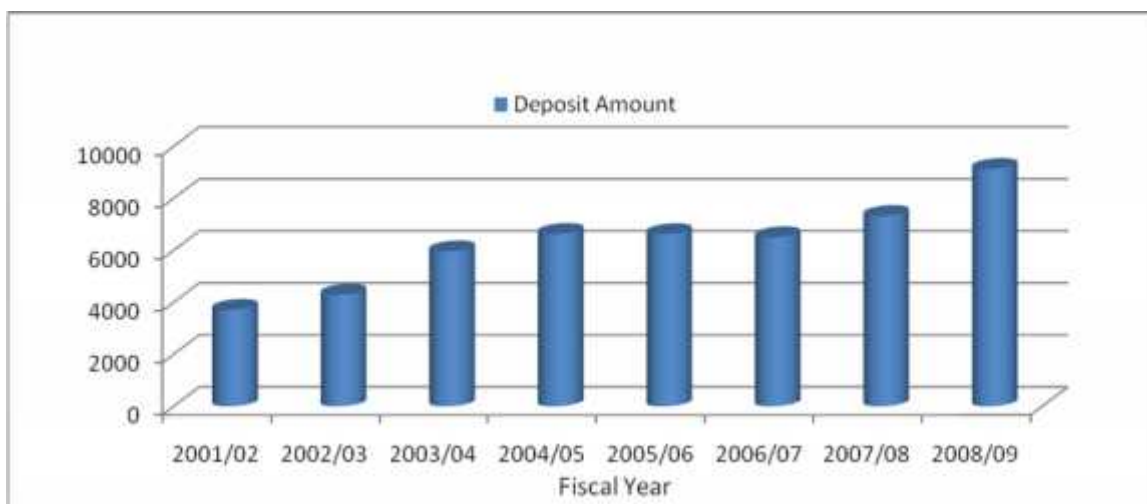
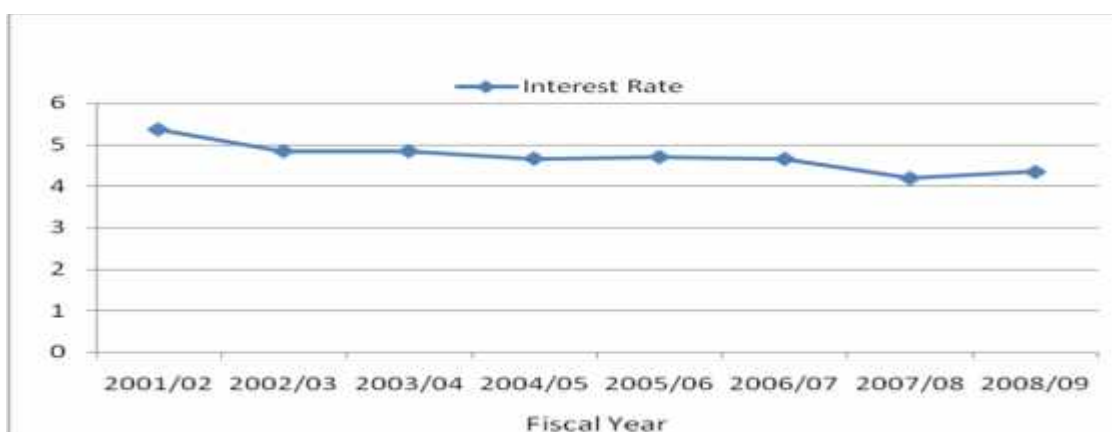


Figure 4-12 Interest Rate of NCC on Deposit during Different



From the table 4.7 and figures 4-11 and 4-12 we can see the trend of interest rate and total deposit collected by the NCC bank. The amount of deposit is in increasing trend but in fiscal year 2005/06 and 2006/07 it is in decreasing trend. In 2005/06 bank collected 6619.5 million Rs which is less than previous year. In 2006/07 bank collected 6500.3 million Rs which is also less than previous year. Interest rates on deposit are also not in constantly increasing trend.

4.3.7 Deposit and Interest Rate Position of NIC

The following table and figures show the interest rate and amt of deposit collection by Nepal Industrial and commercial Bank Ltd. throughout the study period of 2001/2002 to 2008/2009. The table also presents the percentage change in deposit amount of NICB during the study period.

Table 4.8
Deposit and Interest Rate Position of NIC

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest rate (%)
2001/02	3166.3	-	4.71
2002/03	3143.9	-0.71	4.71
2003/04	5146.4	63.69	4.32
2004/05	6243.3	21.31	4.71
2005/06	8765.8	40.40	3.45
2006/07	10068.3	14.86	3.55
2007/08	13419.7	33.29	4.35
2008/09	16240.34	21.02	5.47

Source: Annual Reports of NICB

Figure 4-13 Deposit Amount of NIC during Different FY

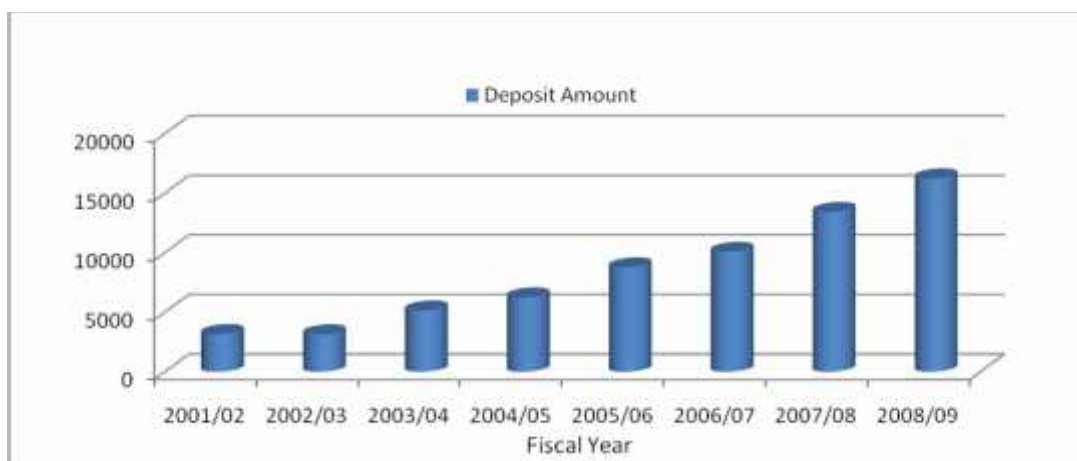
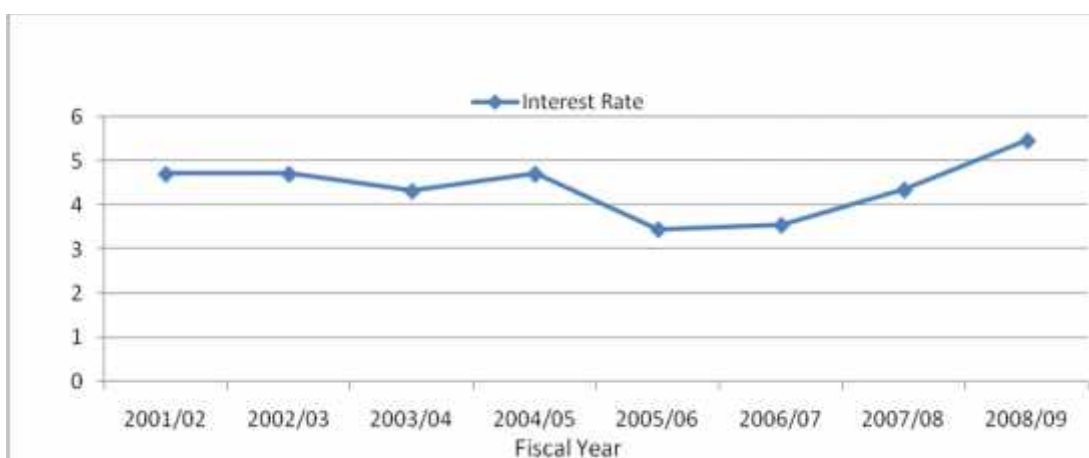


Figure 4-14 Interest Rate of NIC on Deposit during Different FY



The table 4.8 and figures 4-13 and 4-14 show the trend of deposit and interest rate of NIC Bank. The deposit amount of the bank is in increasing trend. But the deposit

amount in fiscal year 2002/03 is decreased by 0.71% then after it started to increase. In 2003/04 it is increased by 66.69% thenafter deposit is increased but in decreasing rate. Interest rate in first two fiscal year is same i.e. 4.71% then it is decreased to 4.32% in third year. Thenafter interest rate increased to 4.71% in fourth year again in fifth year it decreased to 3.45. In eighth year it is increased to 5.47%. Here also combination of interest rate and deposit also not seems good.

4.3.8 Deposit and Interest Rate Position of RBB

The following table and figures show the amt of deposit collection by Rastriya Banijya Bank Ltd. and interest rate throughout the study period of 2001/2002 to 2008/2009. The table also presents the percentage change in deposit amount of RBB during the study period.

Table 4.9
Deposit and Interest Rate Position of RBB

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest rate (%)
2001/02	38993.290	-	5.2
2002/03	39402.273	1.048	4.9
2003/04	40866.768	3.72	3
2004/05	43016.063	5.26	2.5
2005/06	46195.482	7.39	2.53
2006/07	50464.129	9.24	2.53
2007/08	57970.844	14.88	1.76
2008/09	68095.697	17.47	1.57

Source: Annual Reports of RBB

Figure 4-15 Deposit Amount of RBB during Different FY

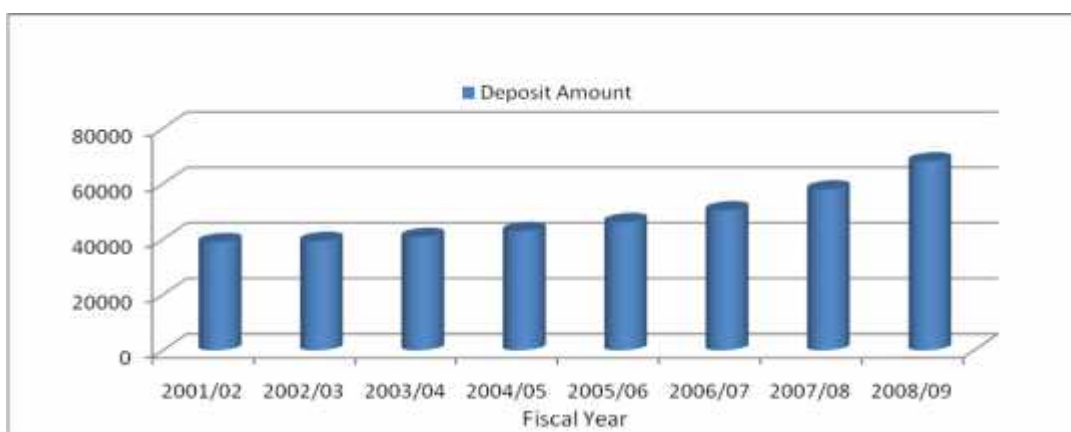
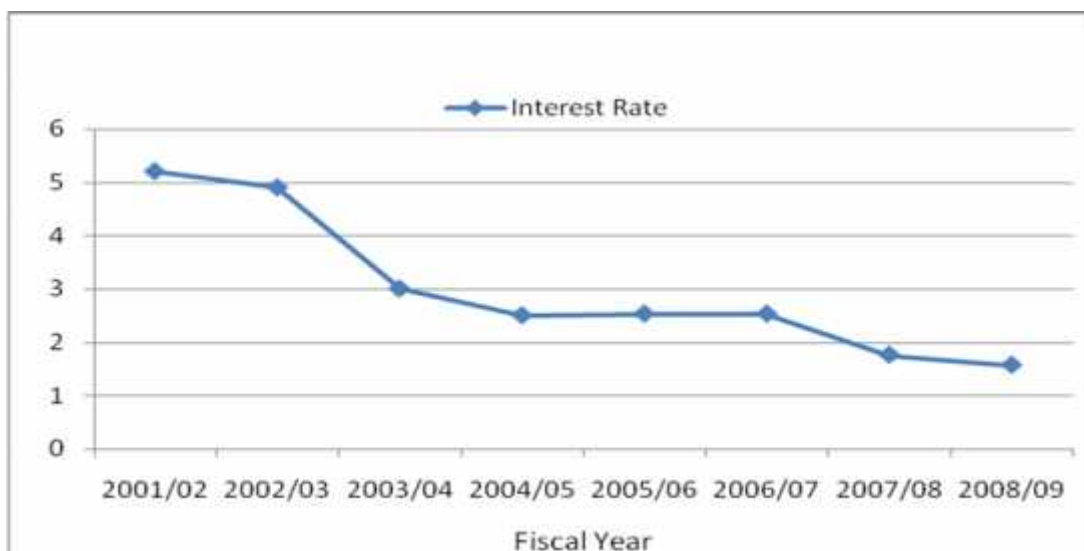


Figure 4-16 Interest Rate of RBB on Deposit during Different FY



The table 4.9 and figures 4-15 and 4-16 show the total deposit amount and interest rate of RBB during the study period. The amount of total deposit by RBB during the study period is in increasing trend. The deposit amount was 38993.290 million rupees in 2002 and amount increased to 68095.697 million rupees in 2009, which is around 175 percent increase. It means the deposit amount of RBB has been increased substantially during the study period. Till 2009 the amount of deposit is increased in increasing rate. In first three fiscal years interest rate was 5.2%, 4.9%, and 3% respectively. Interest rate is continuously is in decreasing trend till in 2009. It means here is also not positive relation between interest rate and deposit amount.

4.3.9 Deposit and Interest Rate Position of NIBL

The following table and figures show the amt of deposit collection by Nepal Investment Bank Ltd. and interest rate throughout the study period of 2001/2002 to 2008/2009. The table also presents the percentage change in deposit amount of NIBL during the study period.

Table 4.10

Deposit and Interest Rate Position of NIBL

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest rate (%)
2001/02	4174.8	-	5.11
2002/03	7922.8	89.78	5.10
2003/04	11706.3	47.75	5.11
2004/05	14254.8	21.77	2.43
2005/06	18927.3	32.78	2.52
2006/07	24488.9	29.38	2.71
2007/08	34451.73	40.68	2.79
2008/09	46698.1	35.55	3.53

Source: Annual Reports of NIBL

Figure 4-17 Deposit Amount of NIBL during Different FY

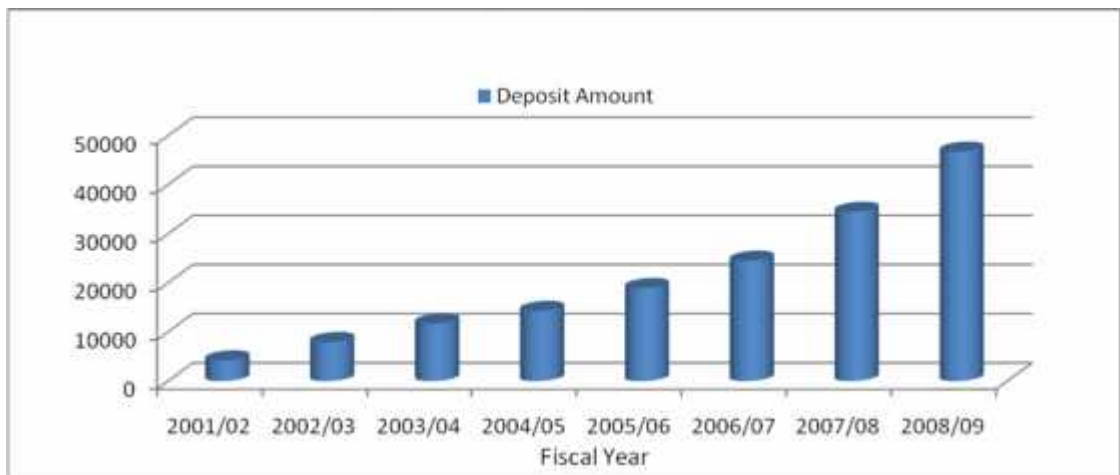
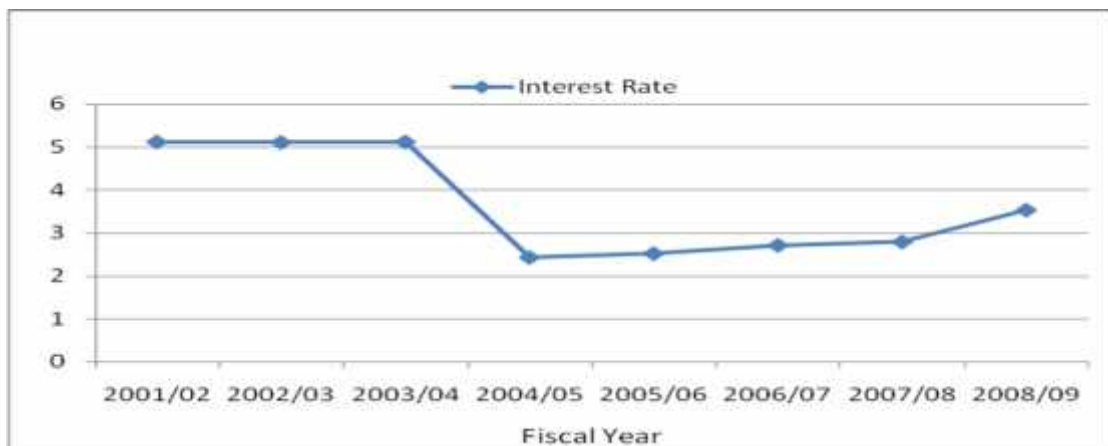


Figure 4-18 Interest Rate of NIBL on Deposit during Different FY



The table 4.10 and figures 4-17 and 4-18 show the deposit amount and interest rate on deposit of Nepal Investment Bank on different time period. For this study 2001/2002 is taken as initial fiscal year and 2008/2009 as a final fiscal year. This above data shows the increasing tendency of deposit amount but decreasing tendency of interest rate. Deposit amount in the beginning year was Rs 4174.8 million and in fiscal year 2008/09 increased to Rs 46698.1 million. Interest rate on deposit in the beginning year was 2.89% and decreased to 1.63% in 2008/09. It seems that here interest rate on deposit is in decreasing trend but deposit collection is in increasing trend.

4.3.10 Deposit and Interest Rate Position of HBL

The following table and figure show the amt of deposit and interest rate of Himalayan Bank Ltd. throughout the study period of 2001/2002 to 2008/2009. The table also presents the percentage change in deposit amount of HBL during the study period.

Table 4.11
Deposit and Interest Rate Position of HBL

Fiscal Year	Deposit Amount (Rs. in Million)	Change (%)	Interest rate (%)
2001/02	18595.2	-	4.19
2002/03	21002.8	12.95	4.01
2003/04	22760.9	8.37	2.62
2004/05	24831.1	9.1	4.01
2005/06	26456.2	6.54	2.79
2006/07	29905.8	13.04	2.69
2007/08	31842.789	6.48	2.75
2008/09	34681.345	8.91	2.78

Source: Annual Reports of HBL

Figure 4-19 Deposit Amount of HBL during Different FY

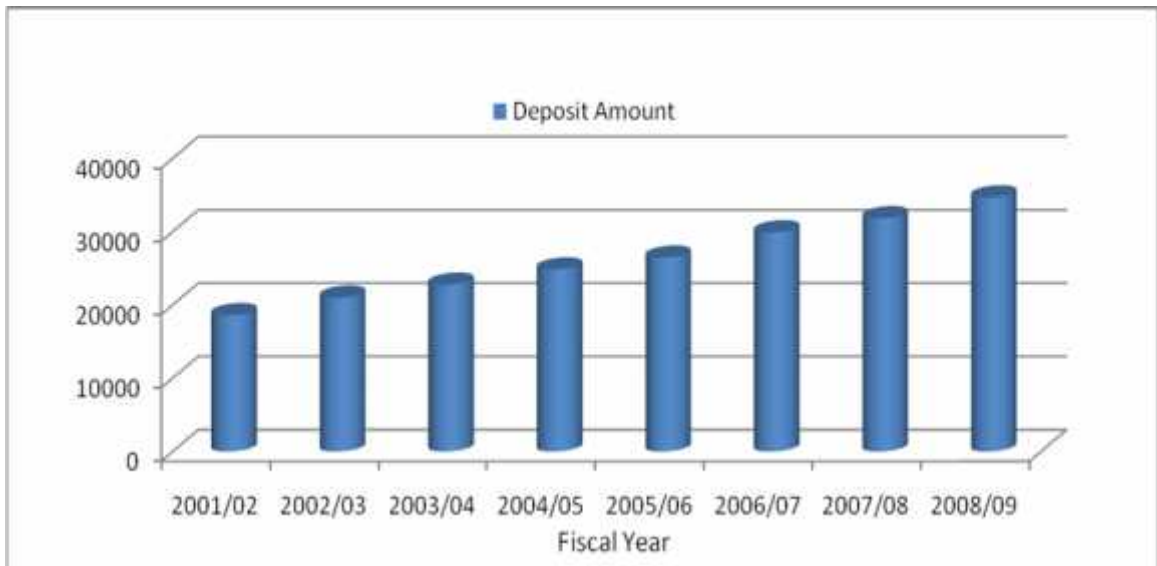
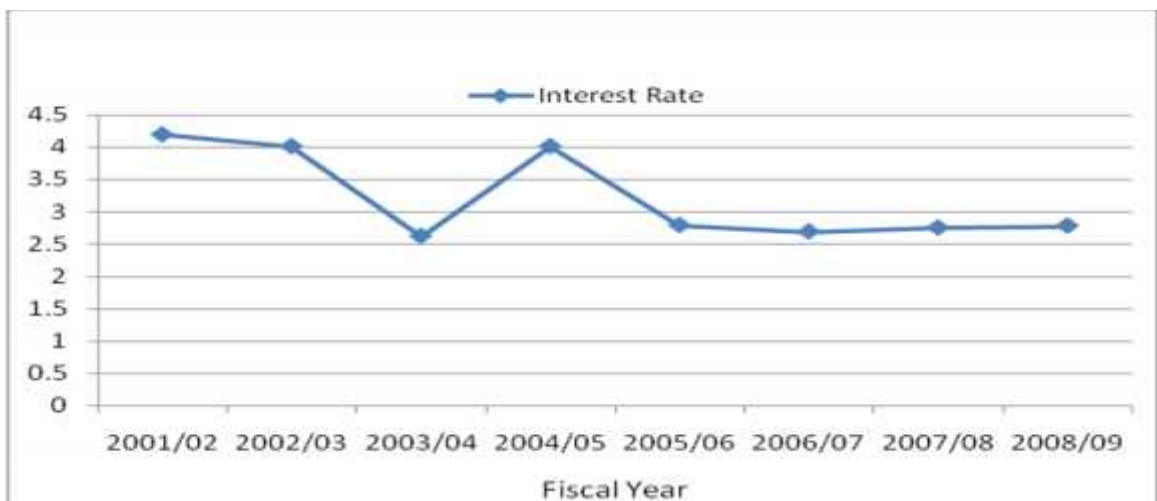


Figure 4-20 Interest Rate of HBL on Deposit during Different FY



From the table 4.11 and figures 4-19 and 4-20 we can see that interest rate and deposit position of Himalayan Bank Limited. The position of deposit amount is in increasing trend. The deposit amount was 18595.2 million rupees in fiscal year 2001/02 but it has increased to 34681.345 million rupees in 2008/09, which is around 200 percent increase. It means the deposit amount of HBL has been increased substantially during the study period. But interest rate is in decreasing trend. The interest rate was 4.19% in fiscal year 2001/02 but it has decreased to 2.78% in 2008/09. It means there is not positive relation between interest rate and deposit amount.

4.4 Mean, Standard Deviation and Coefficient of Variation Analysis

Arithmetic mean is the sum of all the observations divided by the number of observations. Arithmetic mean is also known as the arithmetic average. Standard deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. The standard deviation is an important measure of the total risk of possible outcomes. Coefficient of variation is defined as the ratio of the standard deviation to the mean. It is a relative measure of variability, since it measures risk per unit. As the coefficient of variation increases, so does the risk.

4.4.1 Mean, Standard Deviation and Coefficient of Variation of Deposit

Table 4.12
Mean, Standard Deviation and Coefficient of Variation of Deposit

Banks	Mean (Rs. in Million)	S.D	C.V. (%)
SCBL	23550.375	6098.365	25.90
KBL	7703.89	4716.26	61.22
BOK	10661.94	4193.71	39.33
EBL	15064.65	9128.2456	60.60
NABIL	21180.9	8455.78	39.92
NCC	6270.07	1586.42	25.30
NIC	8271.255	4468.14	54
RBB	48125.57	9638.6	20.03
NIBL	20328.09	13417.20	66
HBL	26259.5	5197.25	19.80

Source: Annexure A1- A10

From the table 4.12, we can find that the bank RBB has highest mean deposit i.e. 48125.57 million whereas NCC has lowest mean deposit i.e. 6270.07 million. Like that the bank NIBL has highest S.D i.e. 13417.20 whereas NCC has lowest S.D i.e. 1586.42. The bank HBL has low risk and more consistent than other banks because

C.V. of HBL is lower than others i.e. 19.80% whereas bank NIBL has high risk and low consistent than other banks because C.V. of NIBL is higher than others i.e. 66%.

4.4.2 Mean, Standard Deviation and Coefficient of Variation of Interest Rate

Table 4.13
Mean, Standard Deviation and Coefficient of Variation of Interest Rate

Banks	Mean	S.D.	C.V. (%)
SCBL	2.025	0.4830	23.85
KBL	4.05	0.82	20.25
BOK	3.35	0.6589	19.67
EBL	3.78	0.85	22.49
NABIL	3.21	0.4438	13.83
NCC	4.70	0.33	7.02
NIC	4.41	0.6188	14.03
RBB	3.00	1.2612	42.04
NIBL	3.66	1.16	31.70
HBL	3.23	0.6547	20.27

Source: Annexure A1- A10

From the table 4.13, we can find that the bank NCC has highest mean interest rate i.e. 4.70 whereas NCC has lowest mean interest rate i.e. 2.025. Like that the bank RBB has highest S.D. i.e. 1.2612 whereas NCC has lowest S.D. i.e. 0.33. The bank NCC has low risk and more consistent than other banks because C.V. of NCC is lower than others i.e. 7.02% whereas bank RBB has high risk and low consistent than other banks because C.V. of RBB is higher than others i.e. 42.04%.

4.5 Correlation Analysis

Correlation analysis is used as a statistical tool to ascertain the association between variables. It may be noted that correlation analysis is one of the most widely used statistical techniques adopted by applied statisticians. Correlation table gives a preliminary idea of the direction of the relationship between the selected variables.

The variables selected for this study are- Deposit Rate, Deposit Amount, Investment and Loan and Advances. A study has been made to find the relationships between all of these variables. Correlation table has been presented below showing the correlations between each variable.

4.5.1 Correlation between Deposit and Interest Rate

The relationship between interest rate and deposit is evaluated how successfully the banks are able to collect the deposit. Here, deposit and interest rate are two variables which are denoted by X1 and X2 respectively. The following table shows the correlation coefficient and coefficient of determination of all sample banks.

Table 4.14
Correlation between Deposit and Interest Rate

Banks	Correlation Coefficient (r)	Coefficient of Determination (r ²)
SCBL	-0.6566	0.4311
NABIL	0.3081	0.095
BOK	-0.6895	0.4754
EBL	-0.0774	0.00599
NCC	-0.8610	0.7413
NIC	0.1230	0.0151
HBL	-0.70	0.49
NIBL	-0.5171	0.2674
RBB	-0.7719	0.5958
KBL	0.25	0.0625

Source: Annexure A1- A10

From the table 4.14 it is found that correlation coefficient between total deposit amount and interest rate of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are -0.6566, 0.3081,-0.6895,-0.0744, -0.8610, 0.1230, -0.70, -0.5171, -0.7719 and 0.25 respectively. The bank SCBL, BOK and NIBL have moderate degree of negative relationship whereas HBL, NCC and RBB have high degree of negative relationship and EBL has low degree of negative relationship. It reveals that the

movement of total deposit and interest rate is found in different direction. It means that deposit amount is not depended with interest rate. The bank NABIL, NIC, and KBL have low degree of positive relationship. It reveals that the movement of total deposit and interest rate is found in similar direction. If interest rate increases, then deposit also increases and vice versa. The value of coefficient of determination of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 0.4311, 0.095, 0.4754, 0.00599, 0.7413, 0.0151, 0.49, 0.2674, 0.5958 and 0.0625 respectively.

4.5.2 Correlation between Deposit and Investment

The correlation between deposit and investment measures the degree of relationship between these two variables. The relationship between deposit and investment is evaluated in order to measure deposit mobilization of the banks. Deposit is mobilized in investment to earn profit by the bank. While mobilizing deposit in investment, bank should consider the adequate fund to invest as it generates enough profit and to preserve balance that can be provided to deposit holders their demand. Here, deposit and investment are two variables which are denoted by X1 and X2 respectively. The following table shows the correlation coefficient and coefficient of determination of all sample banks.

Table 4.15
Correlation between Deposit and Investment

Banks	Correlation Coefficient (r)	Coefficient of Determination (r ²)
SCBL	0.9612	0.9240
NABIL	0.9801	0.9606
BOK	0.7718	0.5957
EBL	0.9392	0.8821
NCC	0.7392	0.5464
NIC	0.8613	0.7418
HBL	0.8086	0.6538
NIBL	0.8804	0.7751
RBB	0.8937	0.7987
KBL	0.8680	0.7534

Source: Annexure B1- B10

From the table 4.15 it is found that correlation coefficient between deposit and investment of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 0.9612, 0.9801, 0.7718, 0.9392, 0.7392, 0.8613, 0.8086, 0.8804, 0.8937 and 0.8680 respectively. There is high degree of positive relationship between two variables of all banks except BOK, NCC and HBL. The bank BOK, NCC and HBL have moderate degree of positive relationship. It reveals that the movement of deposit and investment is found in similar direction. The value of 'r' explains that a percentage change in deposit likely generates the same percentage of change in the value of investment. The value of coefficient of determination of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 0.9240, 0.9606, 0.5957, 0.8821, 0.5464, 0.7418, 0.6538, 0.7751, 0.7987 and 0.7534 respectively, which means that 92.4%, 96.06%, 59.57%, 88.21%, 54.64%, 74.18%, 65.38%, 77.51%, 79.87% and 75.34% respectively variation in the value of investment is due to the cause of deposit.

4.5.3 Correlation between Deposit and Loan and Advances

Deposit is mobilized in loan and advances to earn profit by the bank. While mobilizing deposit in loans and advances, bank should consider the adequate fund to invest as it generates enough profit and to preserve balance that can be provided to deposit holders and loan borrowers on their demand. The relationship between deposit and loan and advances is evaluated in order to measure deposit mobilization of the banks. Here, deposit and loan and advances are two variables, which are denoted by X1 and X2 respectively. The following tables show the correlation coefficient and coefficient of determination of all sample banks.

Table 4.16

Correlation between Deposit and Loan and advances

Banks	Correlation Coefficient (r)	Coefficient of Determination (r ²)
SCBL	0.9294	0.8638
NABIL	0.9828	0.9659
BOK	0.9919	0.9840
EBL	1.00	1.00
NCC	0.8775	0.7700

NIC	1.00	1.00
HBL	0.9784	0.9572
NIBL	1.00	1.00
RBB	0.9760	0.9526
KBL	1.00	1.00

Source: Annexure C1- C10

From the table 4.15 it is found that coefficient of correlation between deposit and loan and advances of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 0.9294, 0.9828, 0.9919, 1.00, 0.8775, 1.00, 0.9784, 1.00, 0.9760 and 1.00 respectively. There is high degree of positive relationship between two variables. It reveals that the movement of deposit and loan and advances is found in similar direction. If deposit increases, then loan and advances also increases and vice versa. The bank EBL, NIC, NIBL and KBL have perfectly positive relationship between two variables. The value of coefficient of determination of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 0.8638, 0.9659, 0.9840, 1.00, 0.7700, 1.00, 0.9572, 1.00, 0.7987 and 0.7534 respectively. The coefficient of determination of EBL, NIC, NIBL and KBL are 1.00, which means that the 100% variation in value of loan and advances is due to the cause of deposit.

4.6 Trend Analysis

To find out the future scenario of deposit, investment and loan and advances for sample banks, trend analysis has been done. This statistical test describes the trend of any variables with passage of time. The most popular method for trend analysis is least square method.

4.6.1 Trend Analysis of Deposit

The trend analysis of total deposit of all sample banks shows the trend values of eight years. Over the study period the analysis makes projection for the next two years. The following table describes the trend values of total deposit of the selected commercial banks.

Table 4.17**(Rs. in Million)**

Bank/year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
SCBL	14827.99	17320.1	19812.21	22304.32	24796.43	27288.54	29780.65	32272.76	34764.87	37256.98
KBL	544.97	2589.55	4635.73	6681.11	8726.49	10771.87	12817.25	14682.63	16908.01	18953.39
BOK	8810.71	10597.74	12384.39	14171.23	15958.07	17744.91	19531.75	21318.59	23105.43	24892.27
EBL	-2598.3	1190.34	4978.98	8767.62	12556.26	16344.9	20133.54	23922.18	27710.82	31499.46
NABIL	9567.34	12885.5	16203.66	21021.82	22839.98	26158.14	29476.3	32794.46	36112.62	39430.78
NCC	3992.03	4642.90	5293.77	5944.64	6595.51	7246.38	7897.25	8545.12	9199	9849.86
NIC	1599.84	3506.81	5413.78	7320.75	9227.72	11134.69	13041.66	14948.63	16855.60	18762.57
RBB	34436.72	38347.82	42258.92	46170.02	50081.12	53992.22	57903.32	61814.42	65725.52	69636.62
NIBL	606.09	6240.95	11875.81	17510.67	23145.53	28780.39	34415.25	40050.11	45684.97	51319.83
HBL	18348.57	20608.84	22869.11	25129.38	27389.45	29649.92	31910.19	36430.73	36430.73	38691

Source: Annexure D

The table 4.17 shows that the total deposits of all sample banks are in increasing trend. The increasing trend of deposit of all sample banks shows the good performance of the bank on collecting the deposit from the depositors.

4.6.2 Trend Analysis of Interest Rate

The trend analysis of interest rate of all sample banks shows the trend values of eight years. Over the study period the analysis makes projection for the next two years. The following table describes the trend values of interest rate of the selected commercial banks.

Table 4.18**Trend value of Interest Rate****(In %)**

Bank/year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
SCBL	2.05	1.88	1.71	1.54	1.37	1.20	1.03	0.86	0.70	0.52
KBL	3.85	3.91	3.96	4.02	4.08	4.14	4.20	4.25	4.31	4.37
BOK	4.19	3.95	3.71	3.47	3.23	2.99	2.95	2.51	2.27	2.18

EBL	4.66	4.41	4.16	3.91	3.66	3.41	3.16	2.91	2.66	2.41
NABIL	3.18	3.19	3.20	3.21	3.22	3.23	3.24	3.25	3.26	3.27
NCC	5.16	5.025	4.90	4.77	4.64	4.51	4.38	4.25	4.12	3.99
NIC	4.40	4.408	4.40	4.407	4.410	4.41	4.4	4.41	4.41	4.41
	79	5	91		3	09	115	21	27	33
RBB	4.79	4.28	3.77	3.26	2.75	2.24	1.73	1.22	0.71	0.20
NIBL	4.89	4.54	4.29	3.84	3.49	3.14	2.79	2.44	2.1	1.74
HBL	3.97	3.76	3.55	3.34	3.13	2.92	2.71	2.50	2.29	2.10

Source: Annexure E

The table 4.18 shows that the interest rates of all sample banks are in decreasing trend except KBL and NABIL. The decreasing trend of interest rate of sample banks does not show good on collecting the deposit from the depositors. Depositors are not actually benefited by the interest rate. The banks are failed to provide high interest rate to the depositors. The bank SCBL and RBB have very low interest rate comparatively to other banks.

4.6.3 Trend Analysis of Investment

The trend analysis of investment of all sample banks for eight years study period from mid July 2001/02 to mid July 2008/09 and projection of trend for the next two years from 2009/10 to 2010/11 is calculated. The following table describes the trend values of investment of the selected commercial banks.

Table 4.19
Trend value of Investment

(Rs. in Million)

Bank/ year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
SCBL	8314.70	9555.17	10795.64	12036.11	13276.58	14517.05	15757.52	16998	18238.46	19478.93
KBL	284.20	513.13	742.06	971	1199.92	1428.85	1657.78	1886.71	2115.64	2344.57
BOK	1271.76	1517.08	1874.4	2175.72	2477.04	2778.36	3079.68	3381	3682.32	3983.64

EBL	1128.43	1807.65	2486.81	3165.97	3845.13	4524.29	5203.45	5882.61	6561.77	7240.93
NABIL	2852.48	3918.1	4984.77	6051.44	7118.11	8184.78	9251.45	10318.12	11384.8	22451.46
NCC	116.54	334.7	552.84	771	989.11	1207.3	1426	1643.6	1861.74	2080
NIC	910.4	1170.2	1430	1689.6	1949.6	2209.4	2469.2	2729	2988.8	3248.6
RBB	2600	4525.2	6450.48	8375.76	10301.04	12226.32	14151.6	16076.88	18002.16	19927.44
NIBL	1079.78	2082.7	3085.62	4088.54	5091.46	6094.38	7097.3	8100.22	9103.14	10106.06
HBL	2412.86	3858.76	5304.66	6750.56	8196.46	9642.36	11088.26	12534.16	13980.06	15425.96

Source: Annexure F

The table 4.19 describes the trend values of investment of all sample banks. The above table shows that the total investments of all sample banks are in increasing trend. The increasing trend of investment of all sample banks shows the increasing opportunities in market and banks share in it.

4.6.4 Trend Analysis of Loan and Advances

The trend analysis of loan and advances of all sample banks shows the trend values of eight years. Over the study period the analysis makes projection for the next two years. The following table describes the trend values of loan and advances of the selected commercial banks.

Table 4.20
Trend value of Loan and Advances

(Rs.in Million)

Bank/ year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
SCBL	4886.28	6151.58	7416.88	8682.18	9947.48	11212.78	12478.08	13743.38	15008.68	16273.98
KBL	243.63	2121.70	3999.77	5877.67	7755.91	9633.98	11512.05	13390.12	15268.19	17146.26
BOK	3377.57	4816.82	6256.07	7695.32	9134.57	10573.82	12013.07	13452.32	14891.57	16330.82

EBL	1382.41	4223.94	7065.47	9907	12748.53	15590.06	18431.59	21273.12	24114.65	26956.01
NABIL	4590.25	7359.35	10128.45	12897.55	15666.65	18435.75	21204.85	23973.95	26743.05	29512.15
NCC	3428.56	3843.53	4258.50	4673.47	5088.44	5503.41	5918.38	6333.35	6748.32	7163.29
NIC	954.32	2630.55	4306.78	5983.01	7659.24	9335.47	11011.7	12687.93	14364.16	16040.39
RBB	9752.51	11510.43	13268.35	15026.27	16784.19	18542.11	20300.03	22057.95	23815.87	25573.79
NIBL	-506.73	3946.05	8398.83	12851.61	17304.39	21757.17	26209.95	23800.4	35115.51	39568.3
HBL	8636.75	10695.15	12753.55	14811.95	16870.35	18928.75	20987.15	23045.55	25103.95	27162.35

Source: Annexure G

The table 4.20 shows that the total loan and advances of all sample banks are in increasing trend. The increasing trend of loan and advances of all sample banks shows the good performance of the bank on investing the deposit in profit earning sectors.

4.7 Analysis of Different Ratios

4.7.1 Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collection or deposits on loan and advances for the purpose of earning profit. This ratio can be obtained dividing loan and advances by total deposits.

Table 4.21
Loan and Advances to Total Deposit Ratio

(Ratio in %)

Bank /Year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average
									e

SCBL	36.55	32.42	31.80	43.49	39.92	43.78	46.95	38.70	39.20
NABIL	47.68	61.53	62.21	77.88	68.63	68.13	68.18	73.87	66.02
BOK	86.78	80.33	78.86	68.87	71.42	78.25	80.51	82.65	78.46
EBL	72.69	75.15	75.85	78.2	73.4	77.4	78.6	73.43	75.59
NCC	79.19	77.37	74.45	90.66	89.12	78.80	72.14	78.62	80.04
NIC	74.85	81.56	72.73	78.66	78.54	90.67	87.62	89.32	81.74
HBL	52.02	52.73	57.47	50.07	55.27	56.57	61.23	71.49	57.11
NIBL	65.05	75.10	62.28	73.33	69.63	72.56	79.91	78.86	72.09
RBB	35.13	29.71	26.87	30.88	32.02	33.88	34.18	38.41	32.64
KBL	95.05	85.41	76.91	90.62	90.2	85.84	90.20	94.17	88.51

Source: Annual Reports of Respective Banks

From the table 4.21 it is depicted that Loan and Advances to Total Deposit Ratio of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 39.20%, 66.02%, 78.46%, 75.59%, 80.04%, 81.74%, 57.11%, 72.09%, 32.64% and 88.51% respectively in average. The average ratio of KBL is higher than other banks whereas the average ratio of RBB is lower than the other banks. The higher ratio is 46.95% in FY 2007/08 for SCBL, 86.78% in FY 2001/02 for BOK, 78.6% in FY 2007/08 for EBL, 90.66% in FY 2004/05 for NCC. Same as 90.67% in FY 2006/07 for NIC, 71.49% in FY 2008/09 for HBL, 79.91% in 2007/08 for NIBL, 38.41% in FY 2008/09 for RBB and 95.05% in FY 2001/02 for KBL. The loan and advance to the total deposit ratio of all banks are in an increasing trend. This indicates that all the sample banks under the study are able to mobilise its funds to the maximum extent.

4.7.2 Total Investment to Total Deposit Ratio

Investment is one of the major sources of income for the financial institution in long run. It also helps in mobilization of deposit fund. Bank can invest in different securities issued by government and

other financial institution. This ratio measures the investment proportion in the deposit. This ratio indicates how properly firm's total deposits have been invested on different sectors.

Table 4.22
Total Investment to Total Deposit Ratio

(Ratio in %)

Bank /Year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average
SCBL	58.57	55.22	53.68	50.17	55.75	55.05	46.74	56.41	53.74
NABIL	33.99	27.44	26.22	29.89	31.53	35.98	31.44	30.00	30.81
BOK	11	26.24	30.93	25	26.35	24.24	20.24	15.39	23.07
EBL	29.82	24.15	30.80	20.99	30.44	26.10	21.11	17.85	25.16
NCC	8.78	9.48	10.21	5.92	9.02	18.85	25.97	17.34	13.20
NIC	23.79	36.69	34.21	25.19	28.29	14.90	17.67	19.42	25.02
HBL	14.11	19.11	12.65	22.19	41.16	39.53	41.89	25.12	26.97
NIBL	6.28	22.02	35.64	28.58	29.97	26.62	19.95	13.70	22.85
RBB	10.67	11.73	7.63	19.56	25.01	25.07	25.09	22.97	18.47
KBL	21.61	16.85	12.50	21.38	14.29	12.29	16.73	9.61	14.08

Source: Annual Reports of Respective Banks

From the table 4.22 it is clear that Total Investment to Total Deposit Ratio of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 53.74%, 30.81%, 23.07%, 25.16%, 13.20%, 25.02%, 26.97%, 22.85%, 18.47% and 14.08% in an average in the period under study. The average ratio of Standard Chartered Bank is higher than other banks. The average ratio of NCC is lower than other banks. SCBL has properly mobilizes its deposit funds. SCBL has mobilises its fund more in investment than loan & advances.

4.7.3 Interest Expenses on Total Deposit & Borrowings Ratio

The major expenses of the commercial banks are interest on deposits used to generate revenue. The bank's total expenses consists the large percentage of interest expenses on deposits. The interest expenses incur when the interest owe on short-term borrowings in the money market-mainly borrowings of central funds from other banks and security repurchase agreements. The interest expenses also consists the expenses paid on subordinated capital notes and debentures and other borrowed fund. This ratio shows the how effectively the banks are utilizing their funds for interest expenses according to deposit collection.

Table 4.23
Interest Expenses on Total Deposit & Borrowings Ratio

(Ratio in %)

Bank /Year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average
SCBL	1.96	1.74	1.31	1.31	1.31	1.65	1.59	1.50	1.55
NABIL	3.2	2.09	1.97	1.68	2.09	2.54	2.64	3.22	2.43
BOK	4.38	4.15	3.31	2.70	2.74	2.55	2.59	3.06	3.19
EBL	3.64	3.2	2.54	2.9	2.8	2.7	2.6	2.98	2.92
NCC	0.50	0.46	0.51	0.58	0.71	0.82	1.01	0.99	0.70
NIC	4.11	4.23	4.45	3.89	4.38	4.26	4.32	4.72	4.30
HBL	2.10	2.15	2.21	2.26	2.45	2.55	2.59	2.70	2.38
NIBL	2.32	2.56	2.74	2.43	2.52	2.71	2.79	3.53	2.7
RBB	6.00	5.33	3.65	2.13	1.68	1.79	1.69	1.48	2.97
KBL	3.86	3.70	3.41	4.48	4.20	3.69	3.87	5.10	4.04

Source: Annual Reports of Respective Banks

From the table 4.23 it is clear that the average interest expenses to total deposit & borrowings ratio of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 1.55%, 2.43%, 3.19%, 2.92%, 0.70%, 4.30%, 2.38%, 2.7%, 2.97% and 4.04% respectively. The NIC has the highest ratio and NCC has the lowest ratio.

4.7.4 Interest Income to Loan & Advances Ratio

Interest is also one of the major sources of income for the financial institution. Interest income as bank's revenue account the interest fees generated from loans. The principal source of bank revenue is the interest income generated by the bank's earning assets; mainly from its loan, securities holdings, any interest-bearing deposits, and any other miscellaneous assets generating revenue. Interest income is generated from giving loan and advances to different sector. This ratio indicates the financial position of the banks. Higher the ratio indicates good financial position and vice versa.

Table 4.24
Interest Income to Loan & Advances Ratio

(Ratio in %)

Bank /Year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average
SCBL	7.12	6.50	7.35	7.43	6.23	6.49	6.20	7.95	6.91
NABIL	9.64	9.83	9.45	8.70	8.29	8.14	8.04	8.82	8.86
BOK	9.45	8.52	10.04	10.27	9.89	8.71	8.30	8.02	9.15
EBL	7.44	7.58	7.8	8.0	7.6	6.9	7.1	7.57	7.50
NCC	9.73	9.86	10.32	9.01	9.54	9.26	10.92	10.56	9.9
NIC	8.36	8.19	8.38	8.72	8.04	7.81	8.31	8.94	8.34
HBL	9.82	10.25	10.54	10.75	10.32	9.98	9.73	9.18	10.07

NIBL	7.88	8.92	9.03	7.36	7.32	7.33	6.93	7.89	7.83
RBB	12.74	17.56	20.64	17.34	15.60	13.87	13.64	13.18	15.57
KBL	7.82	8.66	8.39	8.33	5.89	7.63	7.61	8.34	7.83

Source: Annual Reports of Respective Banks

From the table 4.24 it is clear that the average interest income to loan & advances ratio of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 6.91%, 8.86%, 9.15%, 7.50%, 9.9%, 8.34%, 10.07%, 7.83%, 15.57% and 7.83% respectively. The RBB has the highest ratio and SCBL has the lowest ratio it means RBB shows good financial position than other banks.

4.7.5 Interest Rate Spread

The interest rate spread measures the effectiveness of the bank in the intermediation function, where the bank borrows the fund at one lower level of interest rate and lend at another higher level of interest rate. The spread also use to identify the intensity of competition among banks in the market. Higher positive interest spread shows the suessfulness of the bank in collecting the funds at cheaper rate and granting them at higher rate. The higher interest rate spread is not possible for most banks in the time of strong competition. In this case, bank management seeks to look for other new revenue generating services to its clients to make up the decreased spread. The interest rate spread is the difference in the interest rate between the lending rate and the deposit rate.

The interest rate can be calculated as follow:

Interest rate spread = Interest rate on lending – Interest Rate on deposit.

The following table below clearly states the spread of interest rates in all the commercial banks in Nepal. The spread has been shown above from the fiscal year 2001/02 to 2008/09.

Table 4.25
Interest Rate Spread
(Ratio in %)

Bank/Year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average
SCBL	5.27	4.92	5.31	6.29	4.90	4.87	5.35	3.98	5.11
NABIL	5.21	4.96	5.03	5.01	4.90	4.15	3.94	4.16	4.67
BOK	3.21	3.33	3.41	3.95	3.64	4.04	4.35	4.72	3.83
EBL	4.33	4.93	4.0	4.1	4.0	3.9	4.3	4.37	4.24
NCC	6.01	6.42	4.37	4.29	4.25	3.40	4.45	4.78	4.75
NIC	6.07	4.33	4.55	3.33	2.74	2.87	3.44	3.50	3.86
HBL	5.92	5.47	5.84	5.44	4.79	4.05	4.76	4.18	5.06
NIBL	6.35	5.51	4.50	4.30	3.90	3.99	4.00	3.94	4.56
RBB	4.99	4.80	6.33	6.01	5.29	4.78	5.035	5.44	5.33
KBL	5.84	6.48	3.82	3.85	4.58	4.67	4.30	4.17	4.71

Source: Annual Reports of Respective Banks

From the table 4.25 it is clear that the interest spread rate of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 5.11%, 4.67%, 3.83%, 4.24%, 4.75%, 3.86%, 5.06%, 4.56%, 5.33% and 4.71% respectively in average. The interest spread rate as per NRB directives requirement i.e. 5% so NRB is not successful to maintain spread rate to 5%. Therefore it is big problem to commercial banks because the main income of commercial bank is difference between interest paid and received. Bank has to manage all expenses through it and the spread rate seems very low of all sample banks except SCBL, HBL and RBB.

4.8 Analysis of Interest Rates and Their Segregation

Table 4.26
Interest Rate Structure on Deposit (%)
(Mid-December, 2009)

Deposits/ Banks	SCBL	KBL	BOK	EBL	NABIL	NCC	NIC	RBB	NIBL	HBL
saving	2.0	4.0	2.25	3.0	2.0	4.5	3.0	2.0	2.5	2.75
Special saving	2.5-3.0	4.25- 6.0	2.0- 4.25	2.75- 4.0	2.0-6.0	4.75- 5.25	3.0-5.0	3.0	2.75	2.75- 6.5
7days	-	-	3.0	-	-	-	-	-	-	-
14days	1.0	2.0	3.5	-	-	-	2.75	-	1.25	2.5
1months	1.5	2.5	4.0	-	3.0-4.0	-	3.25	-	1.75	3.25
2months	1.5	-	-	-	-	-	-	-	-	-
3months	1.5	3.0	4.5	3.0	4.0-5.0	4.5	3.5	-	2.5-2.75	3.75
6months	1.75	3.5-4.0	5.0	3.5	5.0-6.0	5.0	4.25- 4.75	-	2.75-3.0	4.5
1 year	2.5	5.5-6.5	6.25	5.0	6.0-7.0	5.5	5.0-5.25	3.5-6.0	5.0-5.5	6.5
2years/abo ve	2.75-3.0	6.5-7.5	6.5- 9.25	5.25- 5.5	7.0-9.0	6.0	5.5-6.0	4.0-7.0	5.5-6.0	6.75- 7.0

Source: Various Banking & Financial Statistics (NRB)

The table 4.26 shows the interest rate structure on saving and fixed deposits of the sample banks. This again may be due to the competition that exists among the commercial banks as they seek to attract and capture customers and funds. A total absence in special saving and on the two-month deposits rate must be taken under consideration here. The fixed interest rates for deposits for a year or more are considerably higher than the interest rates for short-term deposits.

Table 4.27
Interest Rate Structure on Loan (%)

(Mid-December, 2009)

Sector/Banks	SCBL	KBL	BOK	EBL	NABIL	NCC	NIC	RBB	NIBL	HBL
Overdraft	6.5	10.0- 12.0	10.0- 13.5	8.5- 11.0	-	10.0- 12.0	7.0- 11.0	11.0	9.75- 12.0	9.0- 11.5
Expert credit	6.5- 10.0	9.5- 10.5	9.5- 10.5	7.5- 10.0	9.5-12.0	7.0-5.0	7.5- 9.0	8.0-9.0	8.25- 10.5	8.5- 11.5
Import L/C	8.0-9.0	8.0- 11.0	9.0- 12.5	7.0- 10.0	9.5-12.0	-	7.5- 9.5	-	-	8.5- 12.0
Against FDR	+2 +3	+2.0 or 9.5	8.5- 10.0	+1.5	+2.0 min 9.5	+1.0- +2.0	7.9	+2.0	7.0-8.0	-
Against Govt. Bond	7.0-8.0	7.75- 9.0	-	7.0-8.0	+2.0 min 10.0	7.5	7.0- 8.5	8.0	7.0	+1.5 or 8.0
Against BG/CG	8.0-9.0	9.5- 10.0	9.0- 10.5	7.5-8.5	10.0	9.0	7.0- 8.5	8.0	8.0	8.0- 10.0
Against other Guarantee	10.0- 11.0	-	-	-	11.0	-	-	-	-	-
Industrial loan	10.0- 11.5	-	-	8.0- 11.0	-	-	-	-	-	-
Commercial loan	-	-	-	8.0- 11.0	-	-	-	-	-	-

Source: Various Banking & Financial Statistics (NRB)

The table 4.27 shows the loans and advances interest rates for the commercial banking sector. The interest rates for the loans and advances can be segregated into many different types with each type having a different interest rate. In the above table too, the overall interest rates can be seen as decreasing by looking at the interest rate means here for the overall commercial banks, the overdraft interest rates are the costliest. The cheapest loans are providing against the FDR.

The loans and advances rate of interest of the sample banks have been shown above with segregations of the rates into various ones. The mean rate of loan interest has been decreasing year by year at a steady rate just like other sectors. The government loan rates come to prominence if you observe the decrement. The cheapest loans are provided for the government bond.

The loans and advances of different categories with their respective interest rates have been shown in the table above. The government bond loans have the cheapest interest rates. The costliest category of loans here falls under the term loan category.

The banks have been giving out loans & advances of different types, which can be seen in the table above. This might be because of the inconsistencies in effectively running the enterprise and losing the ever-inevitable battle against private banks of Nepal. The costliest interest rates are of the overdraft with about 12.5% in average. The cheapest interest rates fall under the category of government bond with about 8.5% in average.

4.9 Major Findings of the Study

After presentation and analysis of relevant data of sample banks under study; using various analytical tools some findings can be drawn. The major findings of the study are as follows:

-) From the calculation of Mean, S.D. and C.V. of deposit it is found that the bank RBB has highest mean deposit i.e. 48125.57 million whereas NCC has lowest mean deposit i.e. 6270.07 million. Like that the bank NIBL has highest S.D i.e. 13417.20 whereas NCC has lowest S.D i.e. 1586.42. The bank HBL has low risk and more consistent than other banks because C.V. of HBL is lower than others i.e. 19.80% whereas bank NIBL has high risk and low**

consistent than other banks because C.V. of NIBL is higher than others i.e. 66%.

-) From the calculation of Mean, S.D and C.V. of interest rate, it is found that the bank NCC has highest mean interest rate i.e. 4.70 whereas NCC has lowest mean interest rate i.e. 2.025. Like that the bank RBB has highest S.D. i.e. 1.2612 whereas NCC has lowest S.D. i.e. 0.33. The bank NCC has low risk and more consistent than other banks because C.V. of NCC is lower than others i.e. 7.02% whereas bank RBB has high risk and low consistent than other banks because C.V. of RBB is higher than others i.e. 42.04%.
-) From the calculation of coefficient of correlation between deposit amount and interest rate on deposit of all the sample banks were found to be negative except the bank like KBL, NABIL and NIC. It shows negative relationship between the two variables. It reveals that the movement of deposit and interest rate on found not in similar direction.
-) The coefficient of correlation between deposit and investment of all the sample banks were found to be positive. It shows positive relationship between the two variables. It reveals that the movement of deposit and investment is found in similar direction. If deposit increases then investment also increase and vice-versa.
-) The coefficient of correlation between deposit and loan & advance of all the sample banks were found to be positive. It shows positive relationship between the two variables. It reveals that the movement of deposit and investment is found in similar direction. If deposit increases then loan & advances also increase and vice-versa.
-) From the calculation of ratio analysis it is found that the loan and advances to total deposit ratio of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 39.20%, 66.02%, 78.46%, 75.59%, 80.04%, 81.74%, 57.11%, 72.09%, 32.64% and 88.51% respectively in an average. The ratios of the banks are found to be in fluctuating. The average ratio of KBL is higher than other banks whereas the average ratio of RBB is lower than the other banks in an average.
-) The total investment to total deposit ratio of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 53.74%, 30.81%, 23.07%,

25.16%, 13.20%, 25.02%, 26.97%, 22.85%, 18.47% and 14.08% in an average in the period under study. The average ratio of Standard Chartered Bank is higher than other banks. The average ratio of NCC is lowest than other banks. This ratio of the banks is also found to be in fluctuating.

) The interest income to loan & advances ratio of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 6.91%, 8.86%, 9.15%, 7.50%, 9.9%, 8.34%, 10.07%, 7.83%, 15.57% and 7.83% respectively in an average. The RBB has the highest ratio whereas SCBL has the lowest ratio.

) The interest expenses to total deposit & borrowings ratio of SCBL, NABIL, BOK, EBL, NCC, NIC, HBL, NIBL, RBB and KBL are 1.55%, 2.43%, 3.19%, 2.92%, 0.70%, 4.30%, 2.38%, 2.7%, 2.97% and 4.04% respectively in an average. The NIC has the highest ratio and NCC has the lowest ratio.

) From the trend analysis, it is found that the amount of deposit, investment and loan & advances of the all sample banks are in increasing trend. The rate of change of SCBL, NABIL and RBB are higher than other banks. That means SCBL, NABIL and RBB have better increasing trend than other. But the interest rate is in decreasing trend.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is a last part of the research study which includes all the briefing of the whole study and extracts of all the previously discussed chapters. This chapter mainly consists of three parts summary, conclusion and recommendation. In summary portion revision of all four chapters are made viz. introduction, literature review, research methodology and analysis of data. Then conclusion is drawn following analysis part and comparing the theoretical aspect and analysis. Conclusion part answers whether practically relates to theory. Based on conclusion necessary suggestions are presented in recommendation part i.e. various measures are recommended to concerned organization for the improvement of the current condition of interest rate structure of the commercial bank of Nepal so that the banks can mobilise their deposits more smoothly and properly in the near future.

5.1 Summary

Many commercial bank, development banks and financial institutions are operating in the economy to assist in the process of economic development of the country. Due to high competition between the financial institutions, the collected high amount of deposit from public is not properly invested. It is due to lack of demand for fund. So, it raised the problems of investment. Proper mobilization of deposit plays a vital role in the development of economy of the nation. Accepting deposit from savers and transferring the collecting deposit to the investment sector in one of the major functions of banking business. To collect deposit bank provide certain percentage of interest and when amount is loaned outside certain percentage of interest is charged to them. Even though these are various factors in the economy that affects deposit amount and lending amount of the banks with the curiosity to be clear about interest rate structure of commercial banks and to be clear about whether interest rate influence deposit amount this study is made.

The review of literature shows that there are so many economic and non economic factors on deposit. But it is real fact that there is relationship between interest rate and

deposit. The volumes of deposit amount of banks are highly affected by their interest rate. According to the theoretical views there is positive relationship between interest rate and deposit amount. That means, when interest rate on deposit increases that attract to the deposit and deposit amount of banks are increases and vice-versa..

For the purpose of the study, the necessary data on interest, deposit mobilisation and other related variables were collected for the period 2001/02-2008/09. The effect of interest rate on deposit amount is analysed from ten commercial banks of Nepal for eight years period by using statistical and financial tools mentioned in chapter three. Secondary data are collected from NRB's economic reports, annual reports of related banks and websites. The analysis of all banks shows average interest rate on deposit is in decreasing and deposit amount is in increasing trend. This trend shows there is negative relationship between interest rate and deposit amount. The statistical analysis also shows that there is significant relationship between interest rate and deposit amount. The interest rate spread of SCBL, HBL and RBB are found satisfactory whereas bank like NABIL, BOK, NCC, KBL, EBL, NIC and NIBL are found not satisfactory.

With the impact of theories and economic factors, interest rate fluctuates from time to time, such fluctuations have been analysed with the help of financial tools and statistical tools in a systematic manner. Deposit rate of all sample banks under the study are in a decreasing trend. The total loan & advances to the total deposit ratio of all banks are in an increasing trend. This indicates that all the sample banks under the study are able to mobilise its funds to the maximum extent. Trend of deposit, investment and loan & advances are in increasing trend. But trend of interest rate is decreasing trend except NABIL and KBL. Similarly, statistical analysis shows that the correlation coefficient between deposit and deposit rate, deposit and investment and deposit and loan & advances are positive. This means that these factors are correlated. Thus, interest rate structure of commercial banks has greater influence over funds mobilisation in the productive sector. However, the commercial banks of Nepal have not been fully able to succeed in this regard.

5.2 Conclusion

From the analysis of relevant data of sample banks under the study; using various statistical tools mentioned in chapter three and from their findings conclusion have drawn. This study concludes that fluctuations in the interest rate of the commercial banks slightly affect the deposit mobilisation. When there is a slight increase or decrease in interest rates of deposits, deposits are affected slightly. This study concludes that most of sample banks have negative correlation between interest rate and deposit. The interest rate on deposit of all sample banks is found to be in decreasing trend. But on the contrary to this deposit amount is increasing every year. The study also concludes that commercial banks should pay very high attention on how they fix the interest rates on the deposits or the money that flows into the banks as funds. Based on analysis of sample banks it can be concluded that interest rate on deposit is not attractive for the depositors; as every year deposit rate of sample banks are seem decreasing. Analysis of correlation between deposit amt and investment, deposit and loan & advances show the positive relationship of all sample banks. Trend of deposit, investment and loan & advances are in increasing trend of all sample banks. But trend of interest rate is in decreasing except NABIL and KBL. Most of the banks are mobilized their funds more in loan & advances than investment except only SCBL. The interest rate spread of SCBL, HBL and RBB are found satisfactory whereas bank like NABIL, BOK, KBL, NCC, EBL, NIC and NIBL are found not satisfactory.

5.3 Recommendation

To full fill the objective of this study, related data and ideas are collected from different sources. These data are presented; analysed and interpreted then conclusions are made. Based on the analysis, interpretation and conclusion of this study certain recommendation can be made here. So that concerned authorities, further researcher, academicians and banker can get insights on the present conditions of above topics. It is considered that this research will fruitful for them to improve the present condition as well as for further research. The major recommendations after this study are as follows:

1. Interest rate on deposit is too less in Nepal. Commercial banks are suggested to increase the interest rate on deposit so that depositors are benefited by their saving. The banks namely the Rastra Banijya Bank and the Standard Chartered Bank Limited offer comparatively lower interest rates on the deposits than other banks. The recommendation for these banks is that to increase the interest rate to attract more customers.
2. The banks should try to carry out different schemes which may help to increase the deposit collection.
3. The interest spread rate as per NRB directives requirement i.e. 5% so NRB is not successful to maintain spread rate to 5%. Therefore it is big problem to commercial banks because the main income of commercial bank is difference between interest paid and received. So commercial banks are suggested to maintain interest spread rate as per NRB directives.
4. The central banks of Nepal, NRB should pay special attention towards decreasing trend of interest rate on deposit. It may cause different bad effect in the country such as disintermediation, lack of savings and further saving may go outside of the country.
5. . Banks are not able to mobilize to its deposits in terms of loan due to lack of sufficient safe investment opportunities. Thus it is suggested to the government to improve the political situation of the country.
6. Banks should make plan to open their forthcoming branches in rural sector so that large number of people living in rural sector might be able to take advantages of banking facilities. As most of the banks are operated only in the urban sector.
7. Some of the banks are security oriented rather than project oriented. The commercial banks of Nepal should lend their deposits more in projected-oriented works. The commercial banks are strongly recommended to follow liberal lending policy.

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