

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries in the world. World Development Bank has stated that 23.8 percent of Nepalese people are living below poverty line. In Nepal, the main source of income is agriculture which makes a contribution of 35.11 percent to GDP of the country (Survey report, World Development Bank, 2014). Similarly, higher illiteracy and unemployment rate are the main causes due to which economic development of country is almost impossible. So, current state of Nepalese economy is characterized by unutilized natural resources, miserable agriculture, deficit trade, mass poverty, illiteracy and so on.

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

Nowadays the role and importance of banking and financial institutions is increasing day by day. All banks and financial institution play significant role in raising the economy of nation by pooling the saving of community and arranging them for productive use mainly related with granting short and long term loans necessary for trade and commerce. The existence and development of good banking system in any country is a reflection of its economic development. Thus, various banks and finance companies have been established in government and private sector for economic development of nation. Even with the rapid development of various financial institutions, the country is not getting desired return due to poor capital formation and insufficient resources, political instability and imperfect market conditions.

Dahl (2005) Commercial banks are the heart of financial system which collects idle and scattered money from general, public, government, business units and other organizations. They also invest in different enterprise of national economy that consequently helps in reducing poverty, increasing life style of public, increasing employment and reducing disparity in the distribution of income, health and opportunities between rich and poor section of society and country as the whole. They also help to supply financial needs of modern business. Especially, they provide the working capital required to various industries and sectors for their daily operation. They have played a vital role in giving the direction to economic growth over the time by financing the requirement of industries and trade in the country. Apart from that, it also induce the savers to hold their saving to the form of bank deposits by bringing scattered resources into organized banking sector and by allocating them into various sectors of economic activities. In this way, they help in country's capital formation.

Gautam (1988) among various services rendered by commercial banks, Deposits and Investments are the main two services. Deposits, in general is the money placed into a banking institution for safe keeping. They are the funds collected by banks from account holders for the security and transaction motives. It is the amount of money or a valuable item that is received into a bank as a security against possible loss. Deposits are the foundation upon which banks survive and grow. It represents the ultimate source of bank profits and growth. It also generate cash reserve fund. So, without collecting deposits and investing funds in various sectors, the operation of any bank and financial institution is impossible. For the long run and survival, deposits is very important for every single bank. Similarly, without making proper utilization of fund, there is no meaning of collecting fund from people. So, it is obvious that bank perform mainly two functions i.e. accepting deposits and lending funds to various business institutions. Like that, it also contributes heavily in the development of trade, commerce and industry.

Gupta and Pradhan (1985) have explained the definition of deposits as money placed into a banking institution for safe keeping. Various deposits are made at a banking institution such as saving accounts, checking accounts and money market accounts. The account holder has right to withdraw any deposited funds according to terms and conditions of bank. The deposits itself is a liability owed by the bank to the depositor and refers to liability rather than the actual funds that are deposited. Garg (1998) has explained the meaning of deposits as the loan granted by the bank through

the process of discounting customer's bills. In this case, they are known as created deposits and in actual practice; the amount of such deposits is much larger than receiving cash.

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

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

Kulkurmi (2001) Nowadays, proper management of deposits and investment is needed for smooth operation of any banking and financial institution. Also, good plans and policies ensure minimum risk and maximum collection of deposits and proper utilization of fund in various productive sectors.

On the other hand, trend analysis helps us to see the tendency of the variable. We also can predict the value of one variable using the trend analysis. Correlation and Regression are the statistical tools to determine the statistical relationship between two or more variables. Mainly regression analysis is make prediction of one variable on the basis of other variable.

The sample bank of this study, Rastriya Banijya Bank (RBB) is fully government owned and the largest commercial bank in Nepal. It was established on January 23, 1966 A.D. (Magh 10, 2022 BS) and it is operating under Bank and Financial Institution Act, 2063. It has most extensive branching network with 159 branches operating in different parts of Nepal. It provides various services to a wide range of customers that include hank, finance companies, industrial trading houses, airlines, hotels and many other sectors (Annual report, 2014 RBB).

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

The main objective of RBB is to provide banking services throughout the nation and to contribute in socio economic development of the nation. Its main activities include accepting deposits, investing in government securities, lending to productive sector, dealing with foreign currency, processing domestic and foreign remittances, and corresponding banking services. The bank has several depositors they are individuals, institutions, private organizations, business houses, nonprofit-making organizations, social organizations, industries, finance companies, co-operatives etc. The bank has more than three millions clients who are using the resources of bank for their business and development activities (Annual report, 2014, RBB) They vary from big business houses so public sector enterprise, medium and small sector industries to farmer and individuals. Various credit programs are run by RBB towards satisfaction of its customers by providing banking facilities. At the same time, the bank is showing promise to the economic growth and development of the country It aims to reach every rural and urban corner of Nepal to accommodate the requirement of the people The bank's extensive branch network and international connections are designed to transact banking activity between any part of the country and any part of the world.

1.2 Statement of the Problem

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

Commercial banks attract deposits from customers by offering different rate of interest and different kinds of facilities. As a result, banks have collected a lot of deposits but their deposits are not properly utilized due to lack of sound investment policy. The lack of knowledge on investment, interest rate, financial risk, liquidity risk, unfavorable market conditions etc. are main reasons due to which banks are not getting enough investment opportunities. Similarly, granting loans against insufficient interest, over valuation of good pledge land and building mortgage, risk averting decision regarding loan recovery and negligence in recovery of overdone loan are some of the major obstacles bank is facing due to implementation of unsound investment policy. For this study, the following fundamentals problems have been raised as:

1. What is the composition and its trend of total deposits of RBB over the study period?
2. What is the amount and trend of sector wise investments of RBB?
3. How is the loan recovery position of the bank?
4. What is the liquidity position of RBB?
5. What is the rate of return on deposits and investments and relationship between deposits and investments of RBB?

1.3 Objectives of the study

The main objective of the study is to analyze the trend of deposits collection and investment of RBB. The specific objectives of the study are as follows;

1. To analyze the trend of total deposits of RBB over the study period.
2. To explore the trend of sector wise investments of RBB over the last six years.
3. To assess the loan recovery position.
4. To identify the liquidity position.
5. To observe the rate of return on deposits and investments and relationship between deposits and investments of RBB over the study period.

1.4 Significance of the study

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

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

1.5 Limitations of the study

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

- This is a case study which. This uses case study research design. So it is bounded by its own methodology.
- There are 30 commercial banks operating in the country, but only a single unit of the population is taken for the study. Therefore, the study may not be able to represent the whole scenario of commercial banks related to this topic.
- Convenience sampling method is used to draw the sample, which is not free from the criticism. So, it also imposes to draw the line of limitation.
- To investigate the deposits and investment trend, the data of six years period may not be sufficient for intensive study. Also, as subject matter is concentrated on given topics, other subject matters are not investigated.
- To study these topic intensives, primary and secondary data would be better to use. However, this study depends only on secondary data, collected from bank's financial statements, publication and journals.

- Only selected financial and statistical tools have been used to analyze the collected data, which are based on certain assumptions. So, reliability of the analysis depends upon the circumstances on which the model is based.
- This thesis is prepared as per the requirement for partial fulfillment for degree of Master of Arts (M.A.), only the case study and findings of study may be generalized.
- Last but not the least limitation of this dissertation is time and financial constraints.

1.6 Organization of the study

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

Chapter one deals with the background and introduction of the study. It deals with the introduction of RBB, deposits and investment trend of RBB and also highlights upon the statement of the problem, objectives of the study, research questions, and limitations of the study and organization of the study.

Similarly, chapter two represents a review of the literature on the topic of the study. It deals with the conceptual framework of the study. It includes the concept of commercial bank, development of bank and financial institutions in Nepal, functions of commercial bank, objective s and importance of commercial bank, deposits concept, deposits offered by RBB, investment concept, features of sound lending policies, investment management, research review and research gap.

On the other hand, chapter three deals with research methodology. It describes the methodology adopted in the research. It comprises research design, nature and sources of data, population and samples of the study methods of analysis and the limitations of the study.

Likewise, chapter four shows the presentation and analysis of relevant data and their interpretation with the help of bar graphical presentation and statistical tests-mean, standard deviation, correlation, regression analyses using windows excel 2007.

Finally, chapter five provides a summary of overview on all works carried out in the chapters one to four including the major findings and their conclusions of the study. It also includes the suggestions based on the conclusions of the study for the next generation researchers on the same topic.

CHAPTER II

REVIEW OF THE LITERATURE

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

2.1 Theoretical review

This sub-chapter shows the theoretical aspects of the study. It deals with the concept of commercial banks, deposits and investments for the completion of this research work. Referring the various literatures, the conceptual framework has been prepared.

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

Bowley (2000) has defined commercial bank as the one which accept deposits, grant loans, performs commercial banking functions and mobilize the collected fund towards the profitable, secured and marketable sectors. Similarly, Khadka and Singh(2000) stressed that commercial bank was first used to indicate that the loans extended were short term loans to business, though later loans were extended to consumers, government and other non-business institutions. In general, the assets of commercial bank tend to be liquid and carry less risk than the assets held by other financial intermediaries.

Dahal (2002) has explained commercial bank as the corporation which accepts demand deposits and make short term loans to business enterprise regardless of scope of its other services. It is also the financial institution which deals with money and credit as it accepts deposits from the public and makes the fund available to those who need them and helps in the remittance of money from one place to another. They are the most important source of institutional credit in the money market.

Bhandari (2003) has defined the meaning of commercial bank as the banks which operates currency exchange transactions, accept deposits, provides loans and performs other various activities relating to commerce and they are the constituent units of the banking system. Finally, Shrestha (2003) has defined commercial bank as the heart of financial system. They hold the deposits of millions of persons, government and business units. They make fund available through lending and investing activities to individual, business units and government.

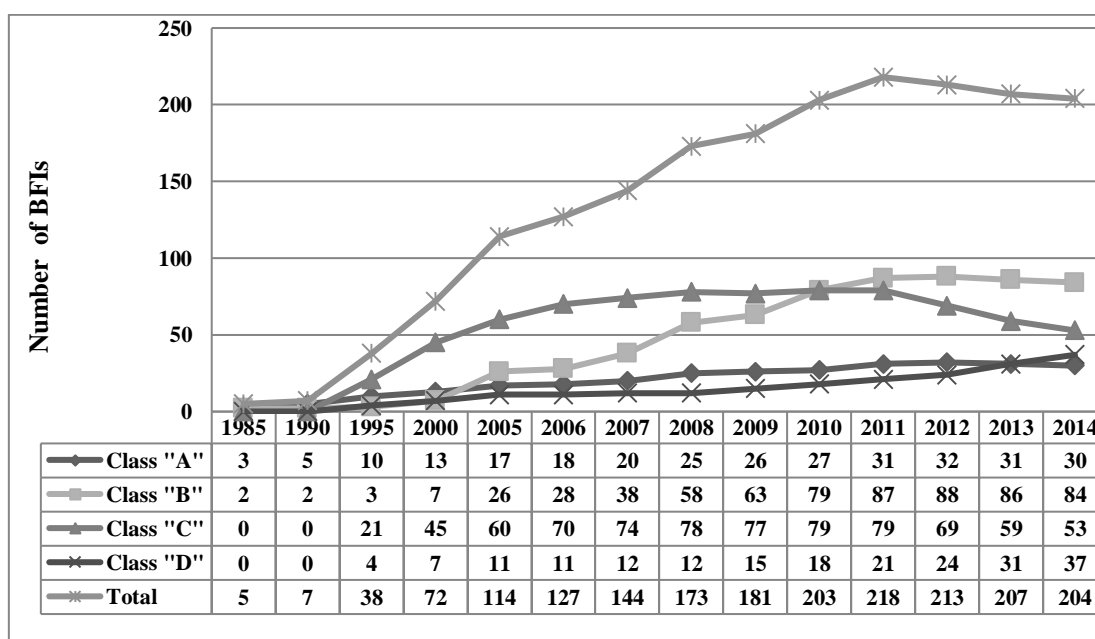
Dahal (2005) has mentioned about the history of banking which was started from the very beginning. It started when goldsmith deposited valuables from people and encourages people for doing the same. However, in Nepal, banking history is said to be started from 732 A.D when king named Gunakam Dev borrowed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

Nepal bank limited 'Tejrath Adda' was established with the ownership of public and government in 1937 A.D under Nepal Rastra Bank act 1937 A.D. However, there was need of central bank in the nation So, Nepal Rastra Bank, the central bank came into existence in 1956 A. D. with objectives of supervising, protecting and directing the function of commercial banking activities. Gradually, another fully government owned named "Rastriya Banijya bank" was established in 1966 A.D to provide banking service to both rural and urban areas. In 1963 AD, cooperative bank was established which was later converted into "Agriculture development bank" in 1967 AD.

After the restoration of democracy in 1989 A.D., Nepal adopted the liberalized economy. Free trade, privatization and globalization started with liberalized economy. Foreign direct investment, multinational organizations started to enter into Nepalese

economy. Nepalese investors are motivated to invest in different sectors. As a result, one sector out of all, Nepalese banking industry has got mushroom growth numbers of Banks and Institutions established by few years. The following figure best describes the trend line of Nepalese banks and financial institutions since 1985 to 2014 A.D. (Bank and financial institutions regulation department, NRB, 2014).

Figure: 2.1
Trend line of BFIs in Nepal



(Source: Financial Stability Report, January 2014 and List of BFIs as of Mid-July, 2014, NRB).

From this figure, we can clearly figure out the trend line of banks and financial institutions in Nepal since 1985 to 2014 A.D. After restoration of democracy in Nepal, the first elected government in 1991 adopted liberalized and market oriented economic policies which includes the measures related with deregulation of interest rate, free entry of bank and financial institution, removal of statutory liquidity ratio, enactment of various act so as to encourage private sectors including foreign banks and financial institutions for divestment of government shares in financial institutions. Since then, various financial institution i.e. joint venture banks, national insurance corporation, Nepal Stock Exchange have come into existence to provide banking services and facilities to the people. These all financial institutions have made valuable contribution for the economic and financial development of the nation.

From the above figure, the quantitative number of banks and financial institutions is in peak in 2011. Then after it has been started to decline gradually as

the result of NRB direction to improve the financial health. However number of commercial banks is in apex point in 2013. This study is mainly talks about the commercial banks of Nepal.

Banks are the major institutions in financial system they are the center and operator of the money. They collect scattered money from public, help to mobilize it in different sectors which helps to develop saving habit of people in order to make other people to invest for their business. It also helps to develop international business by initiating as a mediator in export and import. Nowadays, it is one of the most important sources of short term working capital for business and thus become increasingly active in recent years in making long term business loans for new plant and equipment.

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

Kothari(2001) stressed that deposits is the main source of income to bank. The success of any bank depends upon its ability to attract large number of customers towards banks. As long as the customer keeps on depositing money in the bank, the bank will run smoothly and can meet all financial and administrative expenses needed for its daily operation. Likewise, Sharma (2003) has defined deposits as the source of capital for the commercial bank which is mainly divided into fixed, saving and current deposit. Bank utilizes such amount as a loan and invests in different sectors to earn profit.

In this way, commercial banks help to strengthen the national economy by removing deficiency of capital and by stimulating saving and investment. Basically,

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

a) Fixed deposit

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

Features of fixed deposit

- The amount or money can't be withdrawn by check in this deposits like in other current and saving deposits.
- Usually, the interest rate is awarded every three months in this deposit.
- The customer can renew the fixed period deposits after the expiry of fixed time.
- The fixed period deposits have certain time period which may be starting from seven days to five years or more.
- In fixed period deposit, the minimum interest rate is 3.5% and maximum interest rate is 13.5% according to the duration of time.
- The rate of interest is slightly higher in fixed deposits rather than other types of deposits.
- Here, certificate of deposits can be used as collateral when account holder needs loans from bank.
- Fixed deposits account can be renewed after expiry of due date. So, the depositor should enter into new contract with bank depending upon bank authority.

b) Current deposits

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

Features of current deposits

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

c) Saving deposits

Bank accepts saving deposits from individual and nonprofit organizations to encourage habit of saving among common people and institutions. The bank pay interest to depositors but have no specific maturity date on which funds need to be withdrawn or reinvested. So, customer can withdraw amount by presenting cheques drawn to the bank. The commercial bank also accepts deposits from public under the saving of middle class and lower class of people. It is also known as thrift deposit. It carries low interest rate and normally can be withdrawn at any time. It is designed to attract fund from customers who wish to set aside money in anticipation of future expenditures or future emergencies. All saving depositors are provided cheque pad and pass book of saving deposit. So, it is also called passbook saving deposits.

Features of saving deposits

- Usually, the interest is given every six month in this deposit.
- Generally, the bank provides 5% to 8% interest in this deposits but this percentage may change.
- The accountholders can withdraw amount two times a week on account.

➤ The account is operated through withdrawal slip. For this, cheque book and passbook are issued to accountholders.

➤ If the bank goes into liquidation, more priority is given to saving deposits rather than fixed deposits and current deposit.

➤ If the holder tends to withdraw amount without pre notice, the bank may refuse to give the payment. If it doesn't refuse, it may take some charges as a fine to give the deposit.

d) Call deposits

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

e) Margin deposits

The deposits are non interest bearing deposits. Bank opens such deposits in various forms like guaranteed margin, L/C margin, employee guarantee etc. Here, bank guarantees can be held individually or jointly. The holder of the account also enjoys the facility of nomination. The interest income from bank deposits is taxable under income tax act. The prevailing tax provision is 6% on the interest income for individual and 15% on the interest income for others. However, tax exemption is provided to the units specifically exempted by government. Deposits received from depositor as well as interest payable can be credited to account of depositors.

f) Provident fund deposits

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

Balla and tutesa(1983) define that investment has a rather precise meaning in the literature of economic theory which typically includes net addition to capital stock

of society. By capital stock of society, it means those goods which are used in the production of other goods. He says it is good, societal or aggregate point of view. This definition implies that in society, there are number of goods which are used to produce other goods and these means of production are considered as part of the capital stock of society. For a number of reasons, economists also include inventories as part of capital stock. Thus, a net addition to capital stock and investment means an increase in buildings, equipment or inventories that exist.

Sayers (1987) stressed that investment is any vehicle into which funds can be placed with expectation that will preserve or increase value and generate positive return. Shakespeare (1991) has elaborated definition of investment which shows effectiveness of implementing sound investment policy as it covers wider aspects. The sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on one hand and provides maximum safety and security to depositors and bank on other hand. Moreover, in banking sector, higher risk is involved in loan portfolio. When there is a financial problem in bank, it usually springs from significant amount of loans that have become uncollectible due to poor management and imbalance economic downturn. Therefore, the investment policy of bank should be sound and prudent in order to protect funds. The nature and availability of funds and assets also differ widely from region to region with country to country. For example, the scope of operating bank in Jumla will be different from the scope of bank operating in Katmandu. The investment policy to be applied in Katmandu may not be applicable to customer of Jumla because the demand of loans is less in rural areas where it is high in urban area.

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

Khan and Jam (1998) define that the objective of investment are concerned with risk factor which is in proportion with degree of return. They mention that it is necessary to increase systematically the individual wealth to achieve the objectives of

investment which is known as assets minus liabilities. They have further explained that an investor who seeks high return must be willing to face high level of risk. Wolf and Pant (2000) explain investment in its broadest sense means the sacrifice of current dollars for future dollars. Two attributes are generally involved with time and risk. The sacrifice takes in the present and it is certain. The reward comes later and the magnitude is generally uncertain. In some cases, the element of time predominates (for example government bond). In other case, risk is the dominant attribute (for example call option on common stock) showing equal importance of time and risk.

Sounders and Corneit (2001) stated that investment constitutes a banker's third line of defense, after cash and bills discounted. It yields a higher return than those obtains liquid assets but are less than loans and advances. Bank invests large proportion of their fund in government securities which are highly liquid and can be traded easily due to low default risk. Thus, bank maintains proper amount of such securities for liquidity needs that arise unexpectedly. Ward (1975) defines; an investment is the commitment of funds to one or more assets that will be held over some future time period. It is also concerned with the management of an investor's wealth which is the sum of certain income and present value of all future income.

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

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

On the other hand, the investment promotes the contribution of nation's wealth and economic growth. Bank should invest its fund by lending to various business

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

a) Induced investment

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

b) Financial investment

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

c) Autonomous investment

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

d) Real investment

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

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

e) Planned investment

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

f) Unplanned investment

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

g) Gross investment

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

h) Net investment

Net investment is gross investment minus capital consumption (depreciation) during a period of time usually a year. It must be noted that a part of investment is meant for depreciation of capital assets or for replacing a worn-out capital assets. Hence, it must be deducted to arrive at net investment. The meaning of investment is quite different. So, as an investor, it's a rationale decision to make investment in any financial or business sectors.

The success of any particular bank can be measured by its lending procedures and investment of its fund in different securities and different sectors of market. A sound lending and investment policy is not only prerequisite for bank profitability but also crucially significant for the promotion of commercial saving in backward nation like Nepal. Johnson (1940) has mentioned few important features of sound lending investment policies which are as follows:

a) Safety and security

A bank should be very conscious while making investment decision. It should mobilize those fund and securities which are subject to too much of depreciation and fluctuation since small changes can create a massive loss. So, it must not invest funds

just like speculative businessman who may be bankrupt at once and who earn million in a minute. Bank should accept those securities which are durable and whose share value is very high in the market. In this case 'MAST' should be applied for investment, where

M = Marketable

A = Ascertain ability

S = Stability

T = Transferability

b) Profitability

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

c) Liquidity

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

d) Purpose of loan

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

e) Diversification

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

f) Tangibility

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

g) Legality

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

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

a) Specification of investment objectives and constraints

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

b) Choice of the asset mix

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

c) Formulation of portfolio strategy

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

d) Selection of securities

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

e) Portfolio execution

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

f) Portfolio revision

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

g) Performance evaluation

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

Liquidity

Liquidity means the ability of a firm to meet its short term obligations as and when they fall due for payment. Liquidity is traditionally viewed in terms of cash available to lend a variable exclusive controlled by the credit union with the introduction of withdraw able saving deposits. The concept of the liquidity radically changes. Liquidity now refers to cash needed for withdrawals a variable the credit union can no longer control. The maintenance of adequate liquidity reserve is essential to sound financial management of the new credit union model.

Baral (2005) Bank should have adequate liquidity to minimize both assets side liquidity risk and liability risk of a commercial bank both liquidity deficit and much more liquidity surplus indicate the problems in the financial health of a commercial bank. Much more liquidity surplus indicates the problem in the financial health of a commercial bank. Much more liquidity surplus hurts the profitability of the commercial bank by reducing the return on assets. Similarly, liquid deficit also cost much to the commercial banks in terms of the higher purchasing price of liquidity and hurt in the reputation of the bank. Therefore, commercial banks should strike the trade-off between the profitability and liquidity risk.

Pandy (1999) Liquidity of a firm can be measure by establishing a relationship between cash and other current assets to current obligation. There must be proper balance between liquidity and lack of liquidity because the failure of a firm to meet its obligations due to the lack of sufficient liquidity will result in bad credit image, loss

of creditors in the itors confidence or even in law suits resulting in the closure of the same.

Gup and Kolari (2005) Bank Must be able to manage demand and supply of funds. Cash Balance, bank balance and investment in government bonds are the must liquid form assets. Optimum liquidity is achieved by balancing risk and returns. In banks liquidity need to be high enough to meet even unexpected changes in liquidity needs and sources. On the other hands, liquidity should not be too high because there is an opportunity cost in the sense of excessive near cash assets that could be earning higher rates of return if funds were invest in others assets. Thus the bank must trade of the cost of managing excessive liquidity and the cost of insufficient liquidity.

2.2 Research review

Under the research review, the researcher has reviewed the related articles and dissertations regarding the trend of deposits and investment of commercial banks.

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

Basically, in this study, various articles are reviewed which are as follows: Gautam (1988) in an article, deposits and credit policy of commercial bank in Nepal has concluded that credit deposits ratio has reached 5130 percent in 2004 A.D if other things remain same which was very low at that time. So, he has strongly recommended that the commercial bank should get more chance to expand its investment or credit opportunities. Otherwise, they might not be able to absorb evenits total expenses. In the same way Bajracharya (1990) has presented that mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. So, commercial banks arc the most active financial intermediaries for generating resources in the form of deposits of private sector and providing credit to the investors in different sectors of the economy.

Sharma (1990) in an article, monetary policy and deposits mobilization in Nepal has stated that mobilization of deposits is one of the primary objectives of monetary policy in Nepal. So, he has suggested that all commercial banks and financial intermediaries should adopt appropriate monetary policy to expand investment and credit opportunities and to mobilize the collected fund in various productive sectors which can generate higher return for them. Similarly, Pradhan (1996) in an article entitled, deposits mobilization, its problem and prospect has presented that deposits is the life blood of every financial institutions whether it is commercial bank, finance company, cooperative or any non-government organization. There were various problems in his article such as lack of knowledge among people about importance of making deposits in bank, lack of institutional service in rural areas and lack of proper banking system for making deposits and for investing funds. So, he has recommended that all Nepalese people must develop habit of saving money in bank by teaching or guiding them about the importance of banking and financial institutions in this modern age. Also, more priority should be given towards providing banking and financial services in rural areas.

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

Shrestha (2001) in an article, lending operation of commercial bank of Nepal and its impact on GDP has presented an analysis of contribution of commercial banks to GDP of Nepal. In her hypothesis, there is a positive impact of lending of commercial banks to the dependent and independent variables. A multiple regression technique have been applied to analyze the contribution. Paudel (2002) has focused regarding various potential areas where banks should invest to meet the prevailing

economic recession. Currently, growth in the profitability of joint venture banks has been mainly due to external factors such as foreign exchange rate, foreign involvement in Nepalese bank, foreign aid etc. Therefore, to sustain the current financial position in the long run, banks should enter new areas by making investment in various sectors such as hydroelectricity, tourism, irrigation and so on. Similarly, saving collection is another factor which is necessary for bank to balance their operations and to generate sufficient surplus in their cash flow. In recent years, growth rate of bank deposits has declined to 16 percent as compared to 23 percent of the past mobilization of internal resources in the country. So, the bank demands more financial resources from the public.

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

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

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

Pant (1976) has conducted study about deposits collection and its utilization of commercial bank where he tried to examine the resources collection and utilization. The commercial banks had failed to utilize their resources due to lending for short term only. In this thesis, the deposits position and utilization of funds of commercial bank was shown but the risk factor that affects the working procedures of commercial

bank was not identified. So, the financial position and investment policy of commercial banks was not properly shown. At last, he has suggested that all commercial banks should give preference on long term lending sectors for better utilization of the deposits and improvement of their existing situation.

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

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

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

Pokharel (1983) has conducted study about investment policy and pattern of Rastriya Banijya Bank. The main objectives were to review investment policy of RBB, to examine utilization of deposits and to establish proper relationship between deposits and loans and advances along with effect on them by change of interest rates.

She concluded that bank was giving more emphasis towards security of gold and silver and the bank was not quite able to implement effective investment policy except following the directives of NRB from time to time. At last, she has suggested that bank should adopt appropriate lending and investment policy and it needs to mobilize its collected fund properly. Also, there is a need of effective control, guidance and supervision to improve the performance of RBB.

Sharma (1993) has submitted a thesis named, investment planning of commercial bank in Nepal. In her study, the portfolio (loans and investment) of commercial banks was influenced by the variable securities rate and investment planning of commercial bank in Nepal was directly related to fiscal policy of government and working procedures of central bank. So, the investment planning and operation were not made in professional manner in commercial banks of Nepal. At last, she has suggested that all commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.

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

Gautam (2000) has conducted study about investment analysis of finance companies in the context of Nepal. The main objectives were to determine the fund mobilization and investment position of government securities, to examine loan

position of finance companies and to analyze total investment on total net profit of finance companies. In this study, the investment on government securities had increased rapidly during the study period of five years. Similarly, altogether 38 companies were having investment on hire purchase loan but the use of funds towards hire purchase loan was decreasing rapidly. Apart from that, few companies had invested on term loan and the use of term loan was slowly increasing in that period of five years. But the main drawback in this study was that sufficient financial and statistical tools were not used to reveal deposits position and to provide the clear picture of loan position of finance companies. Thus, he has suggested that sound investment policies should be adopted by all finance Companies of Nepal to improve deposits and loan position and to mobilize the fund in Productive manner in the future. Furthermore, all these finance companies need to make more investment on government bonds and securities which are highly liquid and which can provide adequate return all the time.

Tuladhar (2000) has conducted study about investment policy of Nepal Grindlays Bank Ltd and its comparison with other joint venture banks of Nepal. The objectives of the study were to examine the fund mobilization and investment policy with respect to oil and on balance sheet transaction, to analyze the growth ratio of loans and advances and to perform an empirical study of customer's views and ideas about services and facilities provided by joint venture banks. From this study, he made conclusions that NGBL had maintained consistent liquidity ratio and total investment to total deposits ratio of NGBL was higher than other joint venture banks. Similarly, loans and advances to working fund ratio of NGBL was less than others but investment on government securities to working fund ratio of NGBL was higher than other joint venture banks. At last along with conclusions, he has suggested that NGBL needs to increase investment on shares and debentures to maintain higher profit and strong liquidity position. Agrawal (2002) has submitted a thesis named a study of deposits and investment position of Yeti Finance Company Limited where he made an attempt to determine the financial position and to analyze the trend of deposits and investment position of Yeti Finance company limited for the period of five years. There was an increasing trend in financial position of yeti finance and as well there was maximum amount of deposits collection from fixed deposit. Likewise, total investment position to total deposits ratio of the company seems to be slightly diversified each year and the quick ratio of Yeti Finance was greater than standard

ratio 2:1. Thus, he has suggested that Yeti Finance should sell the idle assets immediately to reduce the quick ratio and also this company needs to adopt right methods and procedures to increase the saving and current deposit.

Shrestha (2006) has conducted study about investment policy of joint venture banks with reference to four commercial banks consisting of Himalayan bank ltd. Nepal SBI Bank Ltd, Everest Bank Ltd and Kathmandu Bank Ltd. His main objectives were to analyze and evaluate the investment policy and to examine the deposits collection and effectiveness of fund mobilization of these commercial banks. After the completion of thesis, he found HBL is successful in mobilizing fund than other remaining commercial banks. Similarly, deposits collection and investment of all these banks were slightly poor. So, he has suggested that all these banks need to increase the deposits collection and should concentrate more on making investment in securities, shares and debentures. Also, all these banks should be established in rural areas to grab people attention and new technologies should be introduced to develop new banking system.

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

Amatya (2009) has conducted comparative study on investment policy of commercial banks and finance companies of Nepal. The main objectives were to determine relationship between profitability and assets structure and to analyze deposits utilization and investment of selected commercial banks and finance companies. After his hard work, he found that finance companies have successfully invested their deposits collection as loans and advances in comparison to commercial banks. Similarly, the trend value of net profit is in increasing trend and commercial banks have high net profit than finance companies At the end, he has suggested that all these commercial banks need to implement sound investment plans and policies

after detail analysis of causes and effects of the variables and they need to employ appropriate statistical, capital budgeting and financial tools to avoid doubtful risks and chance of occurrence of loss.

2.3 Research gap

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

The literature does not show the clear picture of deposits and investment trend of RBB in the context of Nepal. In this study, the researcher is trying to show clear picture of deposits collection and investment trend of RBB by applying various statistical tools. Also, the researcher has made a valuable attempt to deliver the present issues, latest information and data for the completion of this study. Apart from that, the researcher has given more emphasized to solve the problem of financial or liquidity crisis by making proper presentation and analysis of subject matter along with suitable suggestions in this study. Thus, this study might add new dimensions towards improving the deposits and investment sectors of numerous commercial banks in Nepal.

CHAPTER III

RESEARCH METHODOLOGY

The research methodology presents a basic framework on which the study is based on. It plays imperative roles which sets out overall plan associated with the study. Simply, research methodology includes research design, nature and source of data, population & sample size, data collection as well data analysis procedures. In this way, research methodology is the proper way to Identify and implement appropriate methods and procedures in order to achieve the goals of the study.

3.1 Research design

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

3.2 Population and sample

There are all together 30 commercial banks operating in Nepal which are assumed to be the population of the study. But, it is not possible to study about all these commercial banks within this study. Only one commercial bank, namely Rastriya Banijya Bank (RBB) has been taken as a sample for this study. Convenience sampling method has been used as sample is drawn b personal convenience or judgment of the researcher.

3.3 Nature and Sources of Data

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

3.4 Data collection procedures and techniques

All the data for the study have been collected from secondary sources as mentioned above. Mostly, all required data and information are collected from corporate office, Kathmandu and few data are collected from official websites of the bank. Similarly, NRB publications are collected from the websites of NRB. Existing literature on subject matter are collected from various research papers placed in library- central and western regional library. At first, necessary data are extracted from audited financial statements which are recorded in master sheet and then data are entered into spreadsheet to work out the financial ratios and necessary figures are prepared. After that all financial ratios are sorted out with the help of computer programs-Microsoft excel 2007.

3.5 Data analysis tools

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

3.5.1 Financial tools

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

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

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

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

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

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

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

iv) Total liquid assets to total deposits ratio : Total liquid assets to total deposits ratio is the expression of numerical relationship between total liquid assets and total deposits. Furthermore, it shows the overall short term liquidity position. The higher ratio implies the better liquidity position and lower ratio shows the inefficient of the form. It was calculated by using following model.

$$\text{Total liquidity assets to total deposits ratio} = \frac{\text{Total liquidity assets}}{\text{Total Deposits}} \times 100$$

Where,

Total liquidity assets = Cash in hand + Balance with NRB + Balance with domestic FIs + Money at call and short notice + Investment

v) NRB balance to total deposits ratio : NRB balance to total deposits ratio is the expression of numerical relationship between NRB balance and total deposits of a Firm. It measure the properties of NRB balance in total deposits it shows whether a bank holding the balance as required by Nepal Rasta Bank or not. Following model was use to determine the NRB balance to total deposits ratio .

$$\text{NRB balance to total deposits ratio} = \frac{\text{NRB Balance}}{\text{Total Deposits}} \times 100$$

Where,

NRB balance = Balance with Nepal Rasta Bank

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

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

3.5.2 Statistical tools

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

i. Arithmetic mean (average)

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

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

Where, \bar{X} = mean of values

N = no of pair of observation

$\sum X$ = sum of observation

ii. Standard deviation

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

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

Where, $X = (X - \bar{X})$

N = number of observation

iii. Variance

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

iv. Coefficient of variation (C.V)

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

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

Where,

σ = standard deviation

\bar{X} = average or mean

v. Coefficient of correlation analysis (r)

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

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

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

vi. Probable error (P.E)

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

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

Where,

r = value of correlation coefficient

n = number of pairs of observation

vii. Trend analysis

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

The general equation used for linear trend is given below:

$$Y = a + bX$$

Where,

Y = dependent variable.

X= Independent variable.

a= y intercept or constant

b = slope of the trend line.

In the above model:

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

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Deposits composition

Deposits are the main source of income for commercial bank. Without collecting deposit, bank cannot run smoothly. In general, bank collect scattered funds from the public in the form of deposits and mobilize it for generating profit. So, the success of any bank depends upon its ability to attract deposits for long period of time. Similarly, RBB has collected various deposits which are mainly divided as saving, fixed, current and other deposits. In this study, the researcher has made an attempt to examine the deposits composition of RBB for the period of six years. The deposits collections of RBB from F.Y. 2065/066 to F.Y. 2070/071 are presented in table 4.1.

Table: 4.1
Deposits composition of RBB

(In NRs. millions)

Year	Saving deposits	%	Fixed deposits	%	Current deposits	%	Other deposits	%	Total
2065/066	46,164.25	67.73	3212.40	4.71	17,579.69	25.79	1,204.56	1.77	68,160.90
2066/067	42,809.49	62.38	6539.21	9.53	17,969.21	26.18	1,307.96	1.91	68,625.87
2067/068	38,590.02	52.2	14266.90	19.30	18,793.75	25.42	2,273.46	3.08	73,924.08
2068/069	44,106.77	50.25	17984.40	20.49	22,114.21	25.19	3,569.70	4.07	87,775.03
2069/070	49,487.37	54.32	14383.60	15.79	23,703.80	26.02	3,523.19	3.87	91,097.97
2070/071	57,922.59	54	15,613.01	14.55	26,344.89	24.56	7,389.44	6.89	107,269.93
Mean		56.81		14.06		25.53		3.60	

Source: RBB Annual Report

Table 4.1 shows compositions of different types of deposits of RBB from F.Y.2065/066 to F.Y.2070/070. From the table, it is clear that saving deposits collection percentage has decreased from F.Y. 2065/066 to 2068/069 followed by

increasing trend till F.Y.2070/071. The highest percentage of saving deposits in RBB is 67.73percent in F.Y. 2065/066 whereas lowest percentage of saving deposits in RBB is 50.25 percent in F.Y. 2068/069. From the above figure, the deposits collection percentage of saving deposits on an average is 56.81 percent which is very high than rest of the deposits. It shows that bank is collecting more revenue from saving deposit. Similarly, the highest percentage of fixed deposits collection is 20.49 percent in F.Y.2068/069 and lowest percentage of fixed deposits collection is 4.71percent in F.Y.2065/066. It indicates that the ratio of fixed deposits in RBB is very low due to which bank is not getting enough opportunities to make an investment. Every year, percentage of fixed deposits collection is low which is not good for bank to generate higher revenue or profit from their investment. The average fixed deposits collection of RBB is 14.06 percent which shows that bank should give more attention to increase fixed deposits in the bank.

Likewise, percentage of current deposits is better every year with value of 25.79 percent, 26.18 percent, 25.42 percent, 25.19 percent, 26.02 percent and 24.56 percent respectively from F.Y. 2065/066 to F.Y. 2070/071. The bank is maintaining good current deposits which is also the current liabilities for the bank. There is an increasing trend of current deposits from F.Y. 2065/066 to F.Y. 2066/067 but again it has decreased till F.Y. 2068/069 and again increased in F.Y. 2069/070 and decrease in 2070/71. The mean ratio of current deposits is 25.53 percent which enhance strong liquidity position of the bank.

Finally, other deposits which includes call deposit, karma yogi deposit, mahalaxmi deposits and chunamuna deposits shows there is a fluctuation in collection of other deposits every year. It is high in F.Y. 2070/071 with 6.89 percent and it is low in F.Y. 2065/066 with 1.77 percent. The average collection of various kinds of deposits is 3.60 percent which shows satisfactory performance of RBB throughout the study period. The deposits composition of RBB are presented in figure 4.1.

Figure 4.1
Deposits composition of RBB

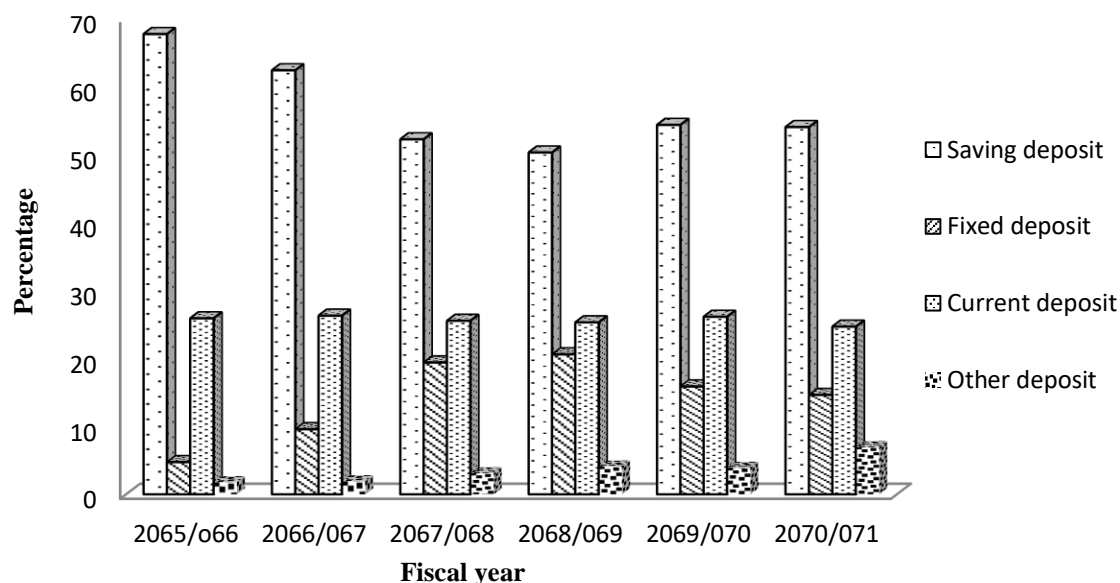


Figure 4.1 shows maximum amount is collected by RBB from saving deposit. According to rank wise, after saving deposit, RBB has collected more amounts from current deposit, fixed deposits and other kinds of deposits respectively.

4.1.1 Growth rate of total deposits

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

Table: 4.2
Growth rate of total deposits (In NRs. millions)

Fiscal Year	Total	Ratio (In %)
2065/066	68,160.90	16.84
2066/067	68,625.87	0.68
2067/068	73,924.08	7.72
2068/069	87,775.03	18.73
2069/070	91,097.97	3.78
2070/071	107,269.93	17.75
Mean		10.91
S.D		7.17
C.V		65.71

Source: RBB Annual Report

In table 4.2, there is an increasing trend of total deposits of RBB during the study period of six years starting from F.Y. 2065/066 to F.Y. 2070/071. The highest

amount of deposits collected by RBB is Rs. 107,269.93 million in F.Y. 2070/071 whereas lowest amount collected by RBB is Rs. 68160.90 millions in F.Y. 2065/066. Likewise, the growth rates of total deposits are 16.84 percent, 0.68 percent, 7.72 percent, 18.73 percent, 3.78 percent and 17.75 percent respectively during the study period of six years. As we see, the growth rate is decreased from F.Y. 2065/066 to F.Y. 2066/067 but it has increasing trend sharply from F.Y. 2066/067 to F.Y. 2068/069. Again, the growth rate has decreased in F.Y. 2069/070 and increased in F.Y. 2070/71 which shows consistent effort of bank in collecting deposits throughout the study period. The mean ratio is 10.91 percent which shows bank is successful enough to collect high deposits from customer all the time. But, the coefficient of variation is 65.71 percent which is very high as it measures the level of risk involved while collecting deposits from customer. So, the bank needs to adopt appropriate policy to increase the deposits collection in coming days. The growth of total deposits is presented in figure 4.2:

Figure 4.2

Growth of total deposits and trend line

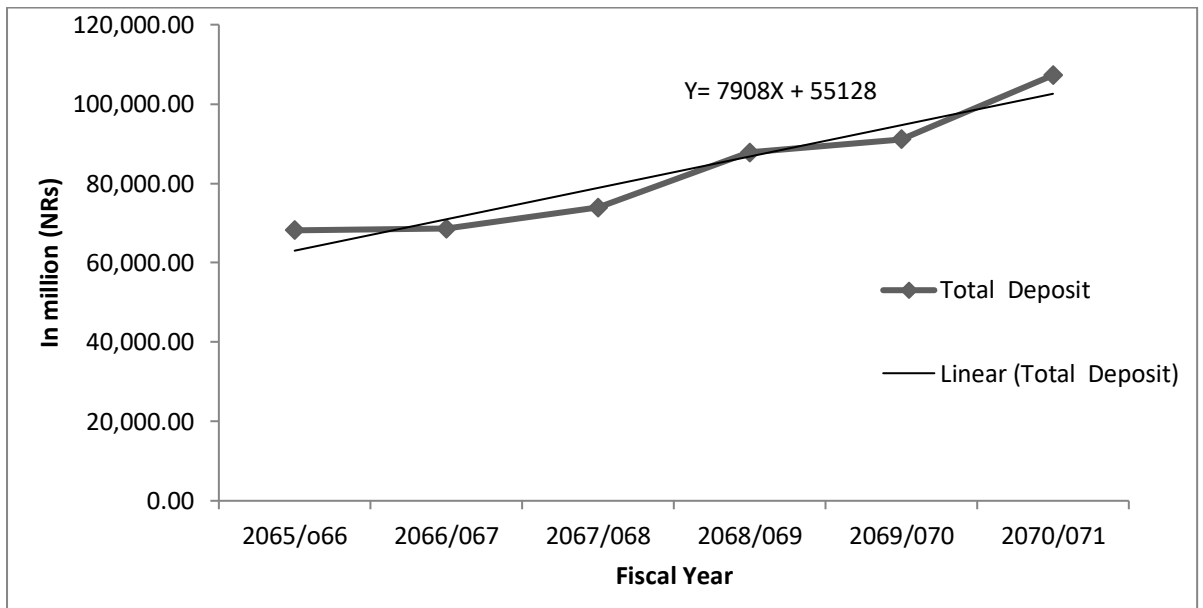


Figure 4.2 shows increasing trend of total deposits of RBB from F.Y. 2065/066 to F.Y. 2070/071. While making trend analysis of total deposits of RBB, the trend line is rising upward throughout the study period. As we see, the value of intercept (a) is Rs. 55128 million and the slope of line (b) is Rs. 7908.9 million. Since the slope is positive and the trend line is rising upward, the bank has high chance to collect more deposits in the future.

4.2 Trend of deposits

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make prediction of one variable on the basis of other variable. In this study, trend analysis of different deposits is presented to predict deposits position of RBB in the future. Here, least square method is used for the trend analysis of saving deposit, fixed deposit, current deposits and other deposits of RBB from F.Y. 2065/066 to F.Y. 2070/071.

4.2.1 Trend of saving deposits

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

Table: 4.3
Amount of saving deposits

(In NRs. millions)

Fiscal Year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Saving deposit	46164.25	42809.48	38590.01	44106.77	49487.37	57922.59

Source: RBB Annual Report

Table 4.3 shows amount of saving deposits from F.Y. 2065/066 to F.Y. 2070/071. The amount of saving deposits of RBB has decreased from F.Y. 2065/066 to F.Y. 2067/068 but it has increased from F.Y. 2068/069 to F.Y. 2070/071. The amount of saving deposits of RBB is plotted in the trend line which is shown in figure 4.3.

Figure 4.3
Amount of saving deposits and trend line

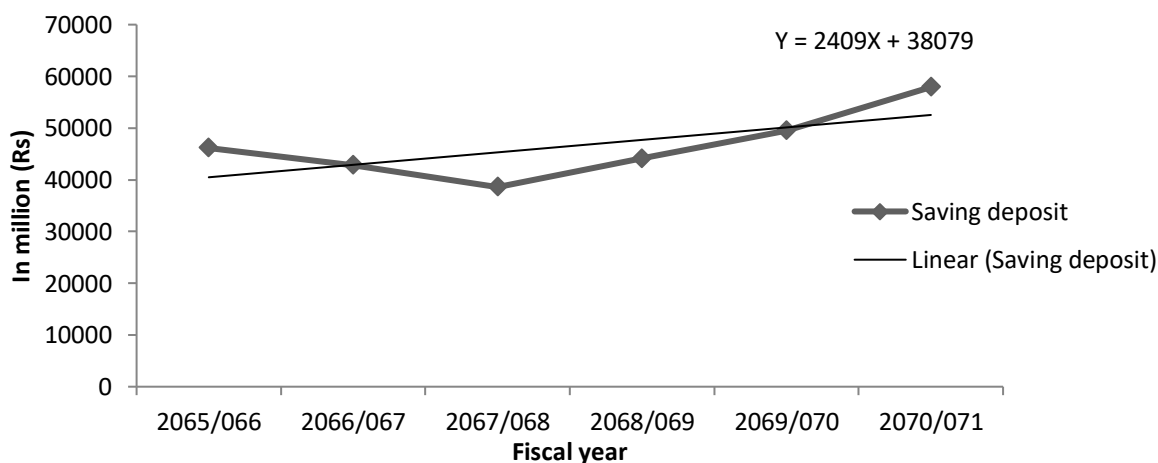


Figure 4.3 shows amount of saving deposits of RBB in a straight line called least square trend line. As we see, the value of intercept (a) is Rs 38079 million and the value of slope (b) is Rs 2409.8 million. Similarly, X is an independent variable by which the predicted value of dependent variable i.e. Y is calculated. So, higher the value of slope, higher will be the predicted amount of saving deposits of RBB. Since, the slope of trend line is positive and the trend line is rising upward, the bank has strong chance of earning high saving deposits in the future.

4.2.2 Trend of fixed deposits

Here, the amount of fixed deposits of RBB for the period of six years is shown in table:

Table: 4.4
Amount of fixed deposits

(In NRs. millions)

Fiscal Year	2065/066	2066/067	2067/068	2068/069	2069/07	2070/071
Fixed deposit	3212.4	6539.2	14266.89	17984.34	14383.61	15613.01

Source: RBB Annual Report

Table 4.4 shows amount of fixed deposits of RBB which is in increasing trend from F.Y. 2065/066 to F.Y. 2068/069, but there is a sudden decrease in amount in F.Y.2069/070 and again increased in 2070/071. The bank is unable to collect high amount from fixed deposit. The amount of fixed deposits of RBB is plotted in the trend line which is shown in figure 4.4:

Figure 4.4
Amount of fixed deposits and trend line

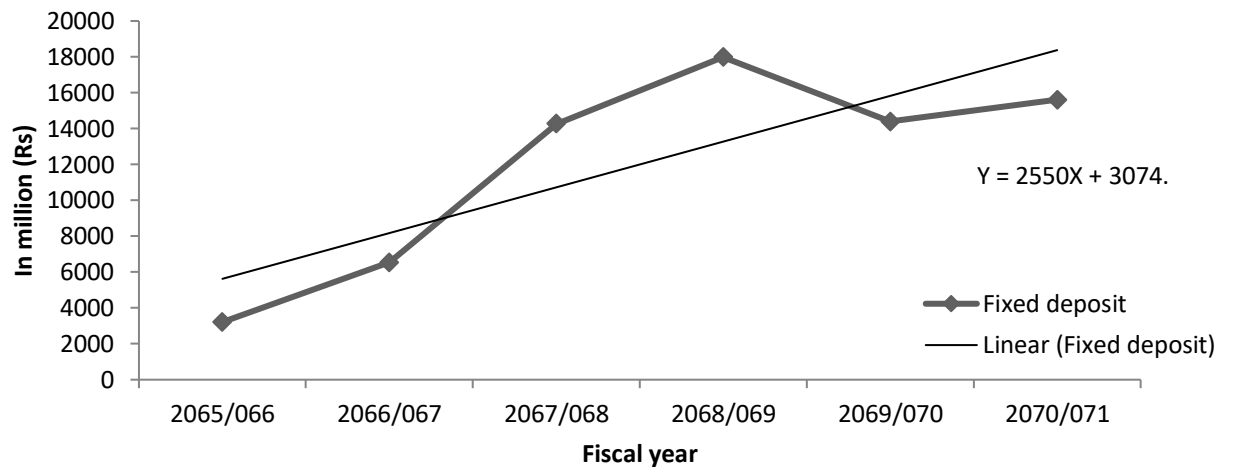


Figure 4.4 shows increasing trend of fixed deposits for the first four years followed by decrease in amount in the fifth year and again increased in last year. The value of intercept (a) is Rs. 3074.5 million and the value of slope (b) is Rs. 2550.1 million. Since, the slope of trend line is positive and the trend line is rising upward, there is a good chance for RBB to collect high fixed deposits in the future.

4.2.3 Trend of current deposits

Nowadays, current deposits are considered as current liabilities for any commercial banks. The amount of current deposits of RBB for the period of six years is shown in table 4.5:

Table: 4.5
Amount of current deposits

(In NRs. millions)

Fiscal Year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Current deposit	17579.69	17969.2	18793.74	22114.21	23703.8	26344.89

Source: RBB Annual Report

Table 4.5 shows amount of current deposits of RBB for the period six years. There is an increasing trend of current deposits in all years. The amount of current deposits of RBB is plotted in the trend line which is shown in figure 4.5.

Figure 4.5
Amount of current deposits and trend line

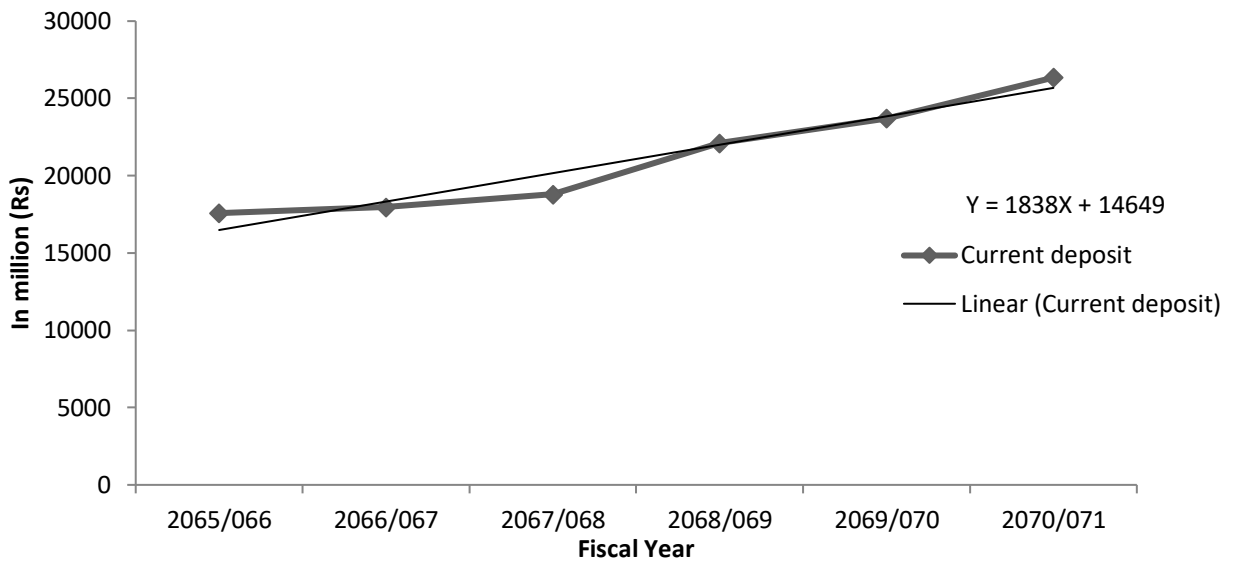


Figure 4.5 shows amount of current deposits in a straight line called least square trend line. The value of intercept (a) is Rs. 14649 million and the value of slope (b) is Rs. 1838.6 million. The value of b shows change in dependent variable (y) by one unit increase or decrease in independent variable (x). Since, the slope of trend line is positive and the trend line is rising upward every year, the bank has very good chance to earn high current deposits in the future. It also shows the better performance of RBB while making collection of current deposit.

4.2.4 Trend of other deposits

Here the amount of other deposits from F.Y. 2065/066 to F.Y. 2070/071 is shown in table 4.6:

Table: 4.6
Amount of other deposits

(In NRs. millions)

Fiscal Year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Other deposit	1,204.56	1,307.96	2,273.46	3,569.70	3,523.19	7,389.44

Source: RBB Annual Report

Table 4.6 depicts amount of other various deposits of RBB from F.Y. 2065/066 to F.Y. 2070/071. It shows that amount of other deposits is in fluctuating trend throughout the study period. The amount of other deposits of RBB is plotted in the trend line that is exhibited in figure 4.6:

Figure 4.6
Amount of other deposits and trend line

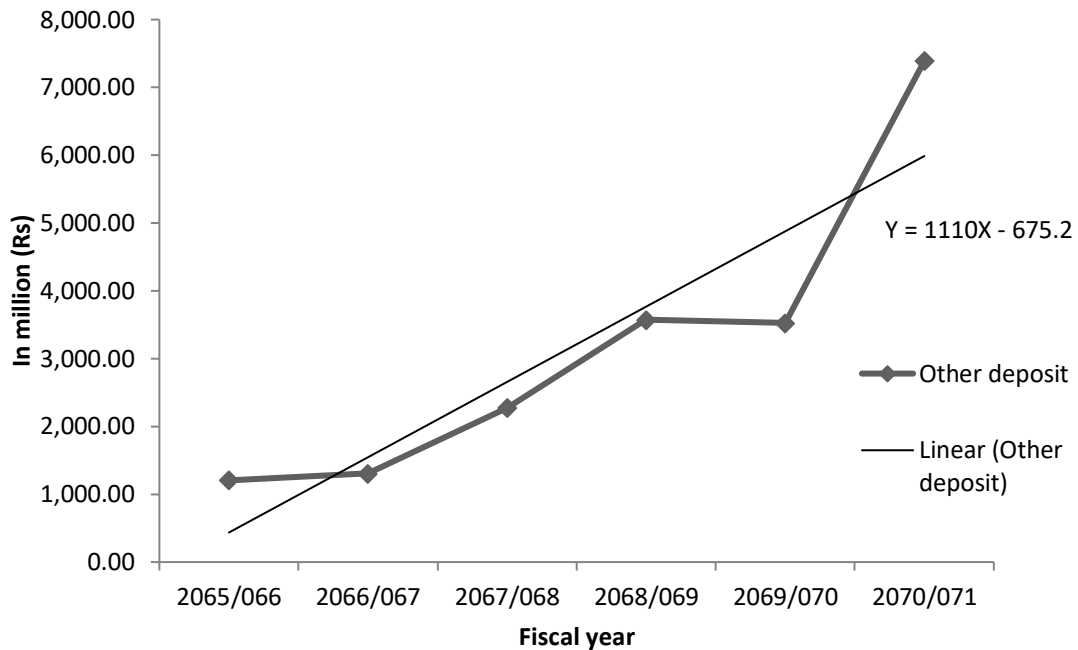


Figure 4.6 shows fluctuating trend of other deposits of RBB throughout the study period of six years. The value of intercept (a) is negative and the value of slope (b) is Rs689.89 million. Since the slope of trend line is positive and the trend line is rising upward, the RBB has better chance to collect high amount of other deposits in the future. In brief, while making trend analysis of deposit, the bank has good chance to collect high saving, fixed, current and other deposits in the future. It shows good performance of RBB throughout the study period.

4.3 Sector wise investment of RBB

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

As we know, lending is the essential function of commercial banking. By providing more loans and advances, the bank can create more opportunities to earn interest from customers. But, there should be effective lending policies while granting loans and advances to the customers. The formulation and implementation of

lending policies are the most important responsibilities of bank directors and management. The lending policies should be carefully analyzed and it should be properly implemented. Similarly, the bank must ensure that credit can be collected in proper time from all borrowers without undertaking any action against them. So, while providing loans and advances to customers, the bank needs to minimize the risk as much as possible. From the bank point of view, it should not bear any losses after providing loans and advances to the customers

In this study, the researcher is trying to analyze the investment made by RBB in various sectors. After careful analysis, the bank can identify whether to increase investment in the future or not. The sector wise investment made by RBB is shown in table 4.7:

Table: 4.7
Sector wise investment

(In NRs. millions)

N	Investment	2065/066	%	2066/067	%	2067/068	%	2068/069	%	2069/070	%	2070/071	%	Mean
1	Real estate loan	2168.49	4.59	1780.07	3.66	1790.23	3.43	1945.88	2.96	2510.245	3.19	2450.52	2.64	3.41
2	Home/housing loan	3025.69	6.4	3110.56	6.39	3151.61	6.04	3275.89	4.98	3736.851	4.75	4186.65	4.51	5.51
3	Marginal loan	694.16	1.47	794.69	1.63	563.47	1.08	331.11	0.50	420.11	0.53	791.60	0.85	1.01
4	Term loan	2458.19	5.20	1941.33	3.99	2027.04	3.88	1937.90	2.95	2201.83	2.80	3228.35	3.47	3.71
5	OD loan/TR loan/WC loan	14158.69	29.97	16339.33	33.56	17583.01	33.68	19539.92	29.70	24906.37	31.66	30330.90	32.64	31.87
6	Other loans	9101.73	19.27	11726.13	24.08	11750.72	22.52	12269.56	18.65	15269.50	19.41	19866.81	21.38	20.88
7	Other investment	15643.05	33.10	12989.46	26.69	15333.16	29.37	26501.13	40.27	29634.79	37.67	32060.64	34.51	33.60
	Total	47250.00	100	48681.97	100	52199.24	100	65801.39	100	78679.70	100	92915.47	100	100

Source: RBB Annual Report

Table 4.7 depicts sector wise investment made by RBB from F.Y.2065/066 to F.Y. 2070/071. It shows maximum percentage of investment is made in other investment sectors such as government securities, local bank, non-government institution etc. In F.Y. 2065/066, the maximum percentage of investment is 33.1 percent made in other investment areas and minimum percentage of investment is 1.47 percent made in marginal loan. Similarly, in F.Y. 2066/067 and F.Y. 2067/068, the maximum percentages of investment are made in OD loan/TR loan/WC loan i.e. 33.56 percent and 33.68 percent respectively whereas minimum percentages of

investment are made in marginal loan i.e. 1.63 percent and 1.08 percent respectively.. Likewise, in F.Y.2068/069, 2069/070 and 2070/071 the maximum percentages of investment are 40.27 percent, 37.66 percent and 34.51 percent made in other investment areas. On the basis of mean, the maximum portion of investment is made in other investment areas i.e.33.60 percent and second largest investment i.e. 31.87 percent is made in overdraft, trust receipt and working capital. Similarly, disbursing loan in other different sectors is third highest according to rank wise i.e. 20.88 percent. The minimum portion of investment is made in marginal loan which is only 1.01 percent in comparison too the sectors. It shows lack of attention of bank while providing loan as marginal loan. The sector wise investment of RBB is presented in figure 4.7:

Figure 4.7
Sector wise investment

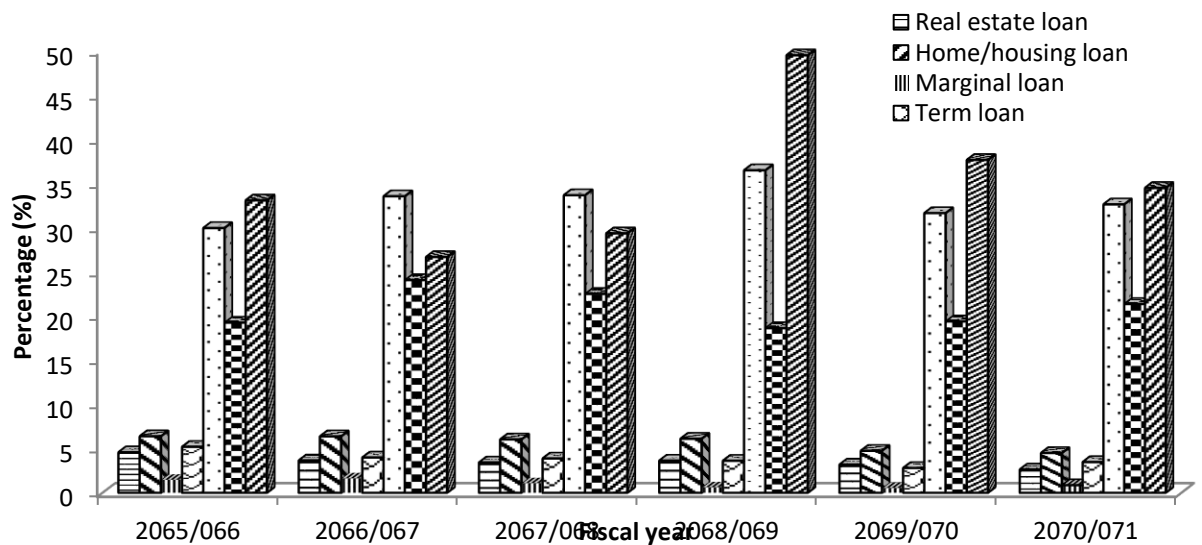


Figure 4.7 shows maximum investment is made in other various sectors such as government securities, local bank and non-government institutions. According to rank wise, after investment in other sectors, RBB has offered OD loan, other loans, home and housing loan, real estate loan, term loan and marginal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

Figure 4.8
Amount of investment and trend line

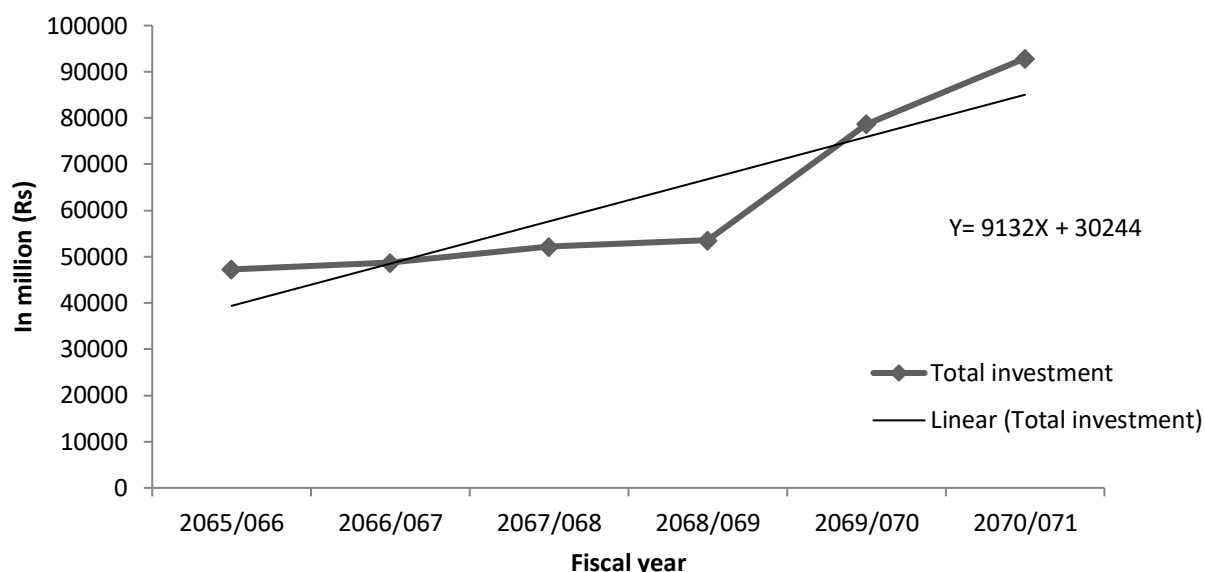


Figure 4.8 shows amount of investment in a straight line called least square trend line. The value of intercept (a) is Rs30244 million and the value of slope (b) is Rs9132.9million. As the slope of trend line is positive and the trend line is rising upward, the bank has good chance to earn high profit from investment in the future. So, it's suitable for bank to make more investment which maximizes the chance of earning high profit.

4.4 Trend of sector wise investment

As we know, RBB has made investment in different sectors and has earned sufficient return all the time. So, the trend analysis helps to measure the chance of RBB to expand investment or to reduce investment in the future Without making trend analysis of investment, RBB cannot decide whether to invest their fund in different sectors or not. So, least square method is used for the trend analysis of real estate loan, home and housing loan, marginal loan, term loan, OD loan and other various kinds of loans and investment made by RBB from F.Y.2065/066 to F.Y. 2070/071.

4.4.1 Trend of real estate loans

The loans provided by bank to the customers by pledging real property as collateral is known as real estate loan. This kind of loan is very common nowadays in Nepal. The amount of six years period of real estate loan from F.Y. 2065/066 to F.Y. 2070/071 is shown in table 4.8.

Table: 4.8
Amount of real estate loans

(In NRs. millions)

Fiscal Year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Real estate loan	2168.49	1780.07	1790.23	1945.88	2510.245	2450.52

Source: RBB Annual Report

Table 4.8 shows amount of real estate loan provided by RBB from F.Y.2065/066 to F.Y. 2070/071. The real estate loan has decreased in F.Y. 2066/067 from Rs2168.49million to Rs1780.07 followed by increasing trend till F.Y. 2069/070 and again increased in F.Y. 2070/071.The amount of real estate loan of RBB is plotted in the trend line that is exhibited in figure 4.9:

Figure 4.9
Amount of real estate loans and trend line

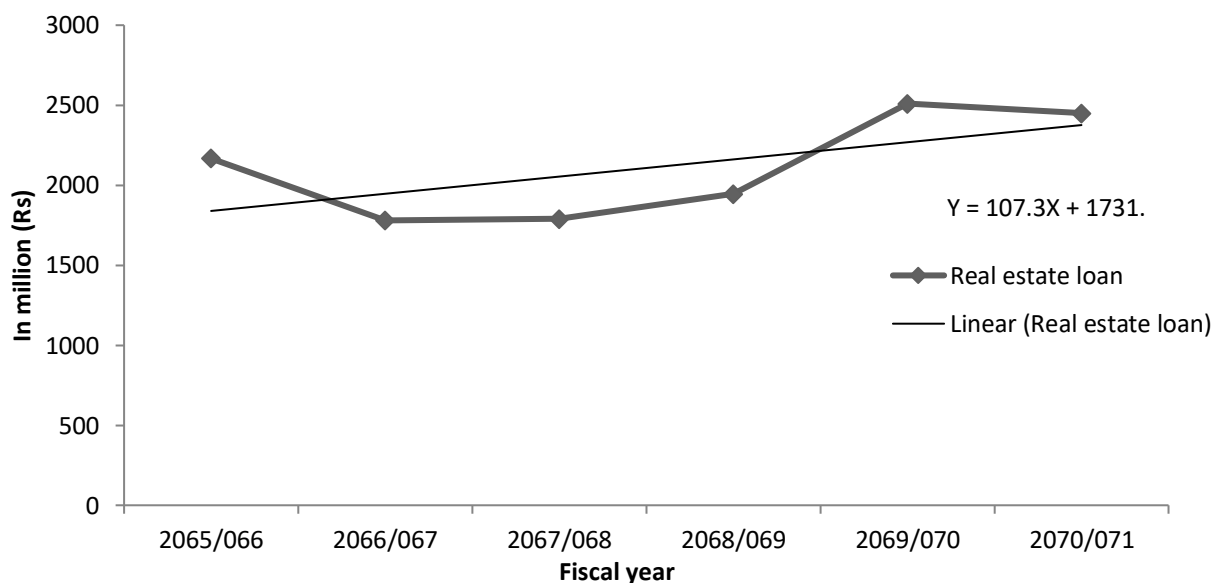


Figure 4.9 shows amount of real estate loan in a straight line called least square trend line. The value of intercept (a) is Rs.1731.9 million and the value of slope (b) is Rs.107.32. As the slope of trend line is positive and the trend line is rising upward, the bank has good chance to earn high profit from real estate loan. Thus, it is suitable for RBB to provide loan as real estate in the future which maximizes the chance of earning high profit.

4.4.2 Trend of home and housing loans

Here, the amount of home and housing loan from F.Y. 2065/066 to F.Y. 2070/071 is shown in table 4.9.

Table: 4.9
Amount of home and housing loans

(In NRs. millions)

Fiscal year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Home and Housing loan	3025.69	3110.56	3151.61	3275.89	3736.851	4186.65

Source: RBB Annual Report

Table 4.9 shows increasing trend of home and housing loan for the period of six years starting from F.Y. 2065/066 to F.Y. 2070/071. The highest home and housing loan offered by RBB is Rs4186.65 million in F.Y. 2070/071 and the lowest home and housing loan offered by RBB is Rs3025.69 million in F.Y. 2065/066. The amount of home and housing loan of RBB is plotted in the trend line that is exhibited in figure4.10:

Figure 4.10

Amount of home and housing loans and trend line

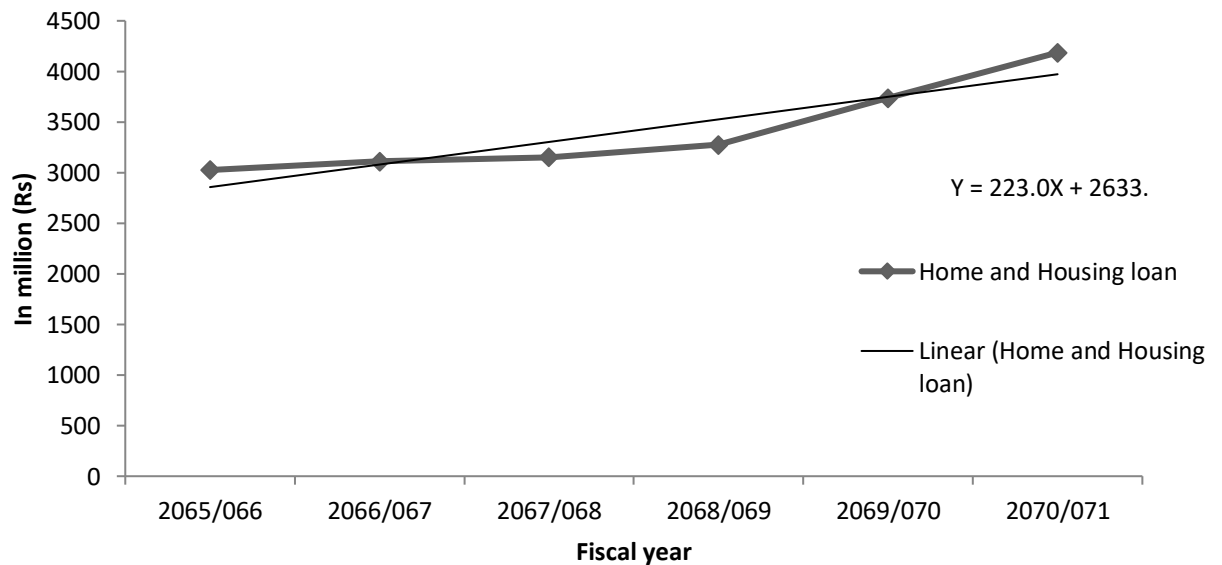


Figure 4.10 shows amount of home and housing loan of RBB in a straight line called least square trend line. The value of intercept (a) is Rs2633.7 million and the value of slope (b) is Rs223.08 million. As the slope of trend line is positive and the trend line is rising upward, the bank can provide more home and housing loan to the customer. Overall, it will be beneficial for bank to provide more home and housing loan in the future.

4.4.3 Trend of marginal loans

Here, the amount of marginal loan from F.Y. 2065/066 to F.Y. 2070/071 is shown in table 4.10.

Table: 4.10
Amount of marginal loans

(In NRs. millions)

Fiscal year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Marginal loan	694.16	794.69	563.47	331.11	420.112	791.6

Source: RBB Annual Report

In table 4.10, the marginal loan provided by RBB has increased in F.Y. 2066/067 but again it has decreased till F.Y. 2068/069. At the end of study period, again there is increased in value of marginal loan offered by RBB. The amount of marginal loan of RBB is plotted in the trend line that is exhibited in figure 4.11.

Figure 4.11

Amount of marginal loans and trend line

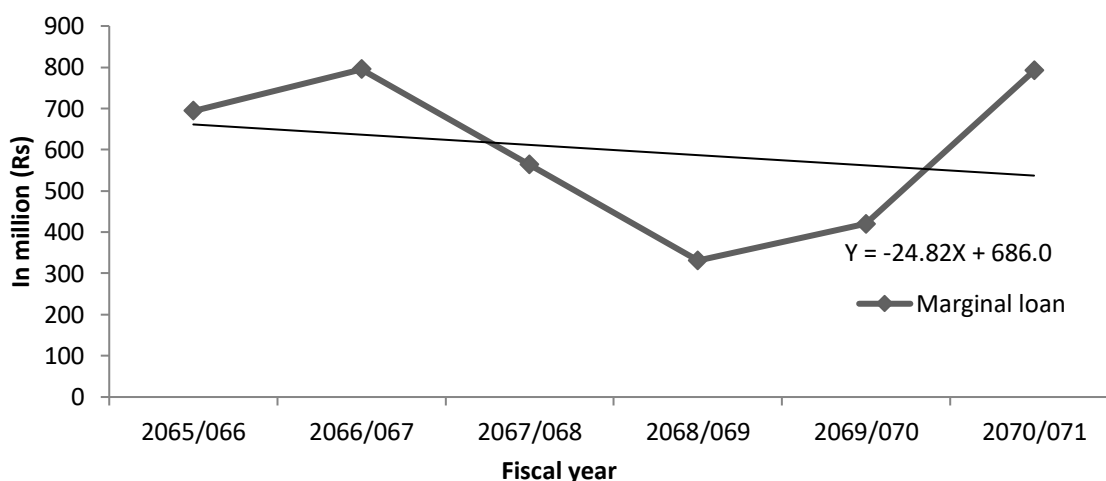


Figure 4.11 shows amount of marginal loan provided by RBB from F.Y. 2065/066 to F.Y. 2070/071. From least square trend line, the value of intercept (a) is Rs.686.08million and the value of slope (b) is negative. As the slope of trend line is negative and the trend line is going downward, RBB has limited opportunity to earn high interest from the marginal loan provided to customers.

4.4.4 Trend of term loans

A loan provided by bank that has a specified repayment schedule and a floating interest rate is known as term loan. Term loans always mature between one and 10years. Here, the amount of six years period of term loan from F.Y. 2065/066 to F.Y.2070/071 is shown in table 4.11.

Table: 4.11
Amount of term loans

(In NRs. millions)

Fiscal year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Term loan	2458.19	1941.33	2027.04	1937.895	2201.828	3228.35

Source: RBB Annual Report

In table 4.11 the term loan provided by RBB has decreased in F.Y. 2066/067. After that, the trend value has increased in F.Y. 2067/068 but again decreased in F.Y. 2068/069 and again increased till F.Y. 2070/071. The amount of term loan of RBB is plotted in the trend line that is exhibited in figure 4.12:

Figure 4.12

Amount of term loans and trend line

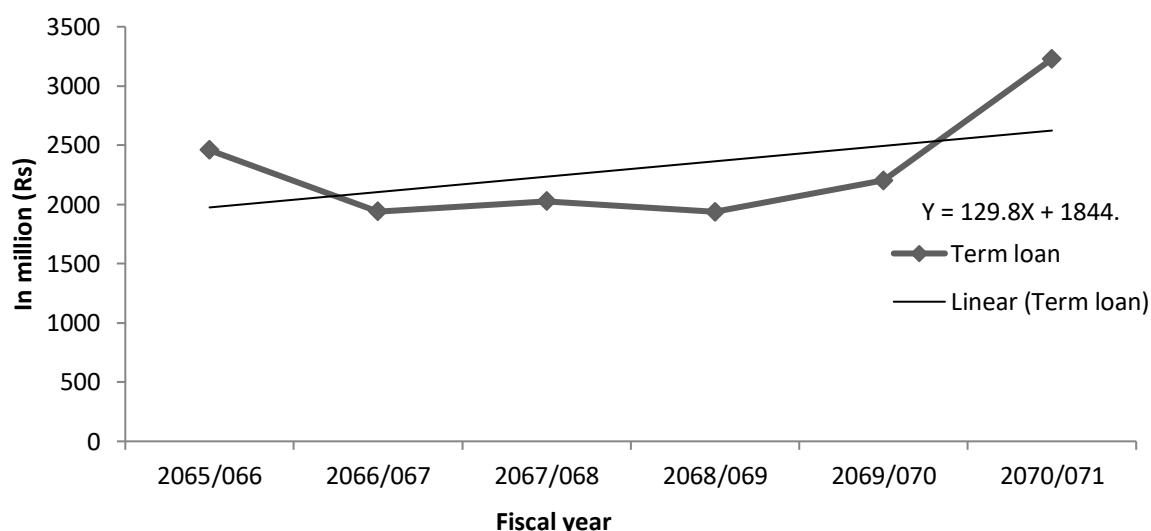


Figure 4.12 shows amount of term loan provided by RBB from F.Y. 2065/066 to F.Y. 2070/071. From least square trend line, the value of intercept (a) is Rs. 1844.8 million and the value of slope (b) is 129.8 million. As the slope of trend line is positive and the trend line is rising upward, the bank can provide more term loan to the customer. Overall, it will be beneficial for bank to provide more term loan in the future.

4.4.5 Trend of OD, trust receipt and working capital loans

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

amount of six years period of OD, trust receipt and working capital loan is shown in table 4.12.

Table: 4.12
Amount of OD, trust receipt and working capital loans

(In NRs. millions)

Fiscal year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
OD, Trust Receipt and Working Capital Loan	14158.69	16339.33	17583.01	19539.92	24906.37	30330.9

Source: RBB Annual Report

Table 4.12 shows increasing trend of OD, trust receipt and working capital loan of RBB from F.Y. 2065/066 to F.Y. 2070/071. It shows bank is providing more OD, trust receipt and working capital loan to their borrower every year. So, RBB wants to earn high interest from these three kinds of loans which is a good sign for future growth and development of the bank. The amount of OD, trust receipt and working capital loan of RBB is plotted in the trend line that is exhibited in figure 4.13.

Figure 4.13

Amount of OD, trust receipt and working capital loans and trend line

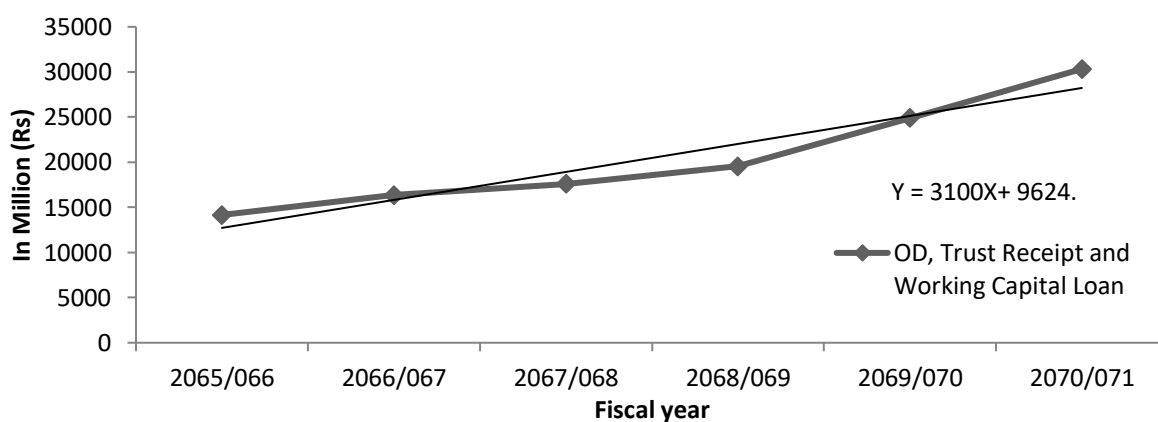


Figure 4.13 shows increasing trend of OD, trust receipt and working capital loan throughout the study period. The value of intercept (a) is Rs9624.5 million and the value of slope (b) is Rs3100.5 million. As the slope of trend line is positive and the trend line is rising upward, RBB has better chance to expand these three kinds of loans in the future. Also, RBB can earn high interest from these three kinds of loans than any other loans.

4.4.6 Trend of other different loans

RBB also provides other various loans which includes education loan, deprived sector loans, auto loans and export loans. The bank is constantly providing these kinds of loans to the customers and it is earning high interest from the loans provided to the customers. The amount of six years period of other different loans from F.Y. 2065/066 to F.Y. 2070/071 is shown in the following table 4.13:

Table: 4.13

Amount of other different loans

(In NRs. millions)

Fiscal year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Other different loans	9101.73	11726.13	11750.72	12269.56	15269.5	19866.81

Source: RBB Annual Report

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

Figure: 4.14

Amount of other different loans and trend line

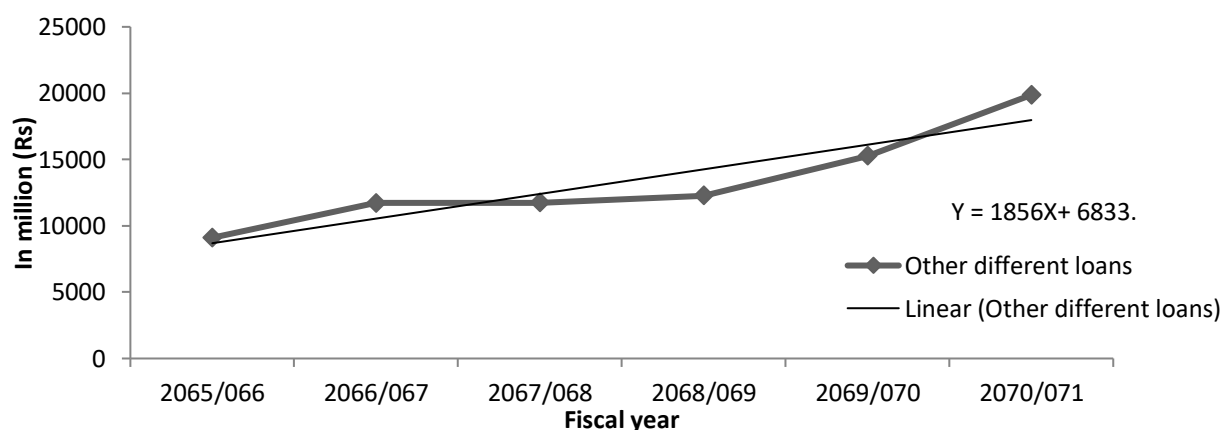


Figure 4.14 shows increasing trend of other various kinds of loans provided by Rastriya Banijya Bank. The value of intercept (a) is Rs6833.3 million and the value of slope (b) is Rs1856.4 million. As the slope of trend line is positive and the trend line is rising upward, the bank has high chance to earn interest from other loans that will be offered to borrower in the future.

4.4.7 Trend of other investment

Nowadays, every commercial bank makes investment in various government securities, local bank, non-government institutions etc. From such investment, RBB is earning profit which is needed for the expansion and growth of the bank. The amount of investment made in local bank for the period of six years is shown on table 4.14.

Table: 4.14

Amount of other investment

(In NRs. millions)

Fiscal year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Other investment	15643.05	12989.46	15333.16	26501.13	29634.79	32060.64

Source: RBB Annual Report

Table 4.14 shows decreased in amount of investment in different sectors in F.Y. 2066/067. After that the amount is in increasing trend till F.Y. 2070/071. So, the bank is constantly making investment in different sectors and earning sufficient income from such investments. These days, all commercial banks are realizing about the making investment on different sectors. The amount of investment on other different sectors is plotted in the trend line which is shown in the figure 4.15.

Figure: 4.15

Amount of other investment and trend line

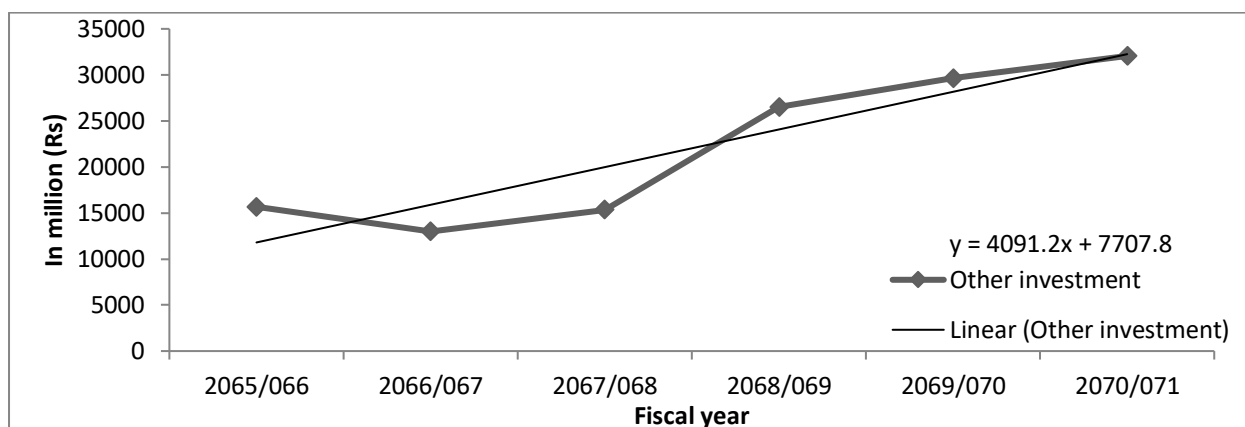


Figure 4.15 shows the amount of investment made by RBB in different sectors for the period of six years. From the least square trend line, the value of intercept (a) is 7707.8 million and the value of slope (b) is Rs4091.2 million. As the slope of trend line is positive and the trend line is rising upward, the bank has high chance to earn income from other investment in the future. Overall, while making trend analysis of sector wise investment of RBB, it's better to make other investment and also profitable to offer OD, trust receipt and working capital loans, home and housing

loans, term loans and other different loans. But it's not better for RBB to offer marginal loan.

4.5 Loan recovery position of RBB

As we know, it is very important for every commercial bank to recover loans from their customer at proper time if they fail to collect money from their customer on regular basis, then bank may face the problem of bankruptcy. Also, bank may lose reputation due to which customer doesn't want to deposits money in bank. So, the bank may suffer heavy loss if they fail to collect loan from customer at right time Here, the ratio of loan recovery to total loan and advances depicts amount of recovery made by bank each year. It measures efficiency of bank in collection of loan. It is calculated by dividing loan recovery by total loans and advances. The calculated ratios are shown in table 4.15.

Table 4.15
Loan recovery ratio

(In NRs. millions)

Fiscal year	Loan Recovery	Total loans and advances	Ratio (in %)
2065/066	2,360.25	31,606.74	7.47
2066/067	1,763.49	35,682.76	4.94
2067/068	1,402.23	36,866.10	3.80
2068/069	1,432.05	40,448.86	3.54
2069/070	743.12	49,044.91	1.52
2070/071	820.20	60,854.85	1.35
Mean			3.77
S.D			2.08
C.V			55.07

(Source: RBB Annual Report)

In table 4.15, the loan recovery amount of RBB is fluctuating and in decreasing trend from F.Y.2065/066 to F.Y. 2070/071. The highest amount of loan recovered by RBB is Rs. 2360.25 million in F.Y. 2065/066 whereas lowest amount of loan recovered by RBB is Rs. 743.12 million in F.Y. 2069/070. Likewise, the

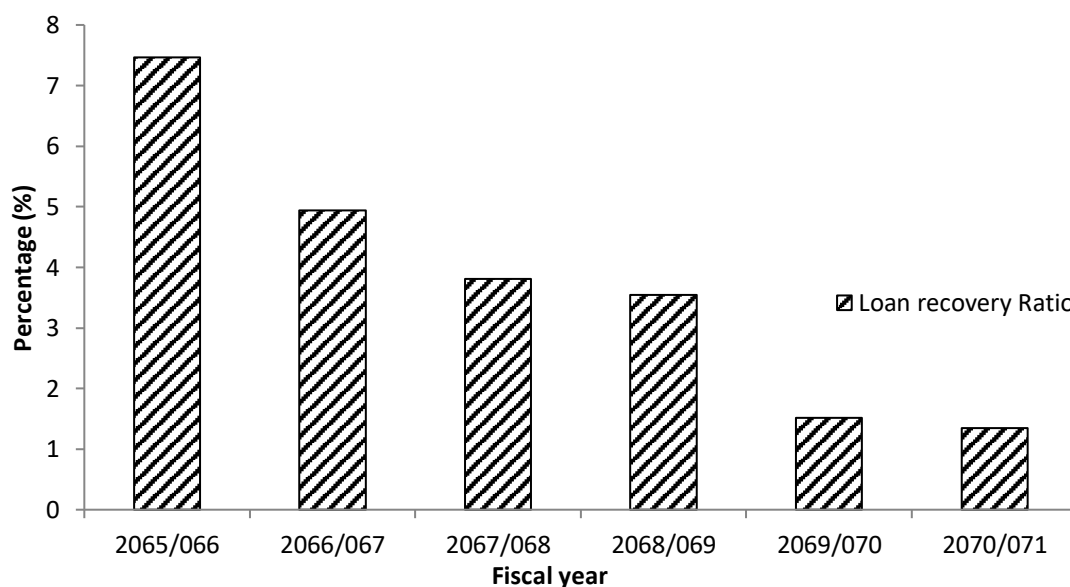
obtained ratios of loan recovery to total loans and advances are 7.47 percent, 4.94 percent, 3.80 percent, 3.54 percent, 1.55 percent and 1.35 percent respectively. As we see, the calculated ratio is in decreasing trend from F.Y. 2065/066 to F.Y. 2070/071 which is not a good sign to RBB. It shows that RBB is unable to recover loan from their customer at right time. The mean ratio is 3.77 percent which shows bank negligence or failure in collecting loans from customer regularly.

Also, the C.V is 55.07 percent which is very high from bank point of view. So, the bank has to take immediate action or should implement new methods or techniques for speedy recovery of loan all the time.

The loan recovery ratios of RBB are shown in figure 4.16.

Figure: 4.16

Loan recovery ratio



4.5.1 Growth rate of total loans and advances

Growth rate is calculated to find out change in loans and advances during the study period of six years. The calculated growth rates of loans and advances are shown in table 4. 16. Figure 4.16 shows decreasing trend of loan recovery ratio from F.Y. 2065/066 to F.Y. 2070/071. . Overall, the bank is unable to recover loan from customers at proper time.

Table 4.16
Growth rate of total loans and advances

(In NRs. millions)

Fiscal year	Total loans and advances	Ratio (in %)
2065/066	31606.74	14.83
2066/067	35682.76	12.90
2067/068	36866.10	3.32
2068/069	40448.86	9.72
2069/070	49044.91	21.25
2070/071	60854.85	24.08
Mean		14.35
S.D		6.93
C.V		48.27

(Source: RBB Annual Report)

Table 4.16 shows growth rate of total loans and advances of RBB for the period of six years. There is decreasing trend of total loans and advances of RBB from F.Y. 2065/066 to F.Y. 2067/068. But, if we see the growth rate of loans and advance it is in increasing trend till F.Y. 2070/071. The mean ratio is 14.35 percent which shows that bank is successful enough to provide more loans and advances to customers. Also, the bank has more chance to earn high interest from loans and advances provided to customers. The C.V is 48.27 percent which shows inconsistency in growth rate of loans and advances of RBB. So, the bank needs to increase its investment as loans and advances in different sectors in the future. The growth rates of loans and advances are shown in figure 4.17.

Figure: 4.17

Growth rate of total loans and advances

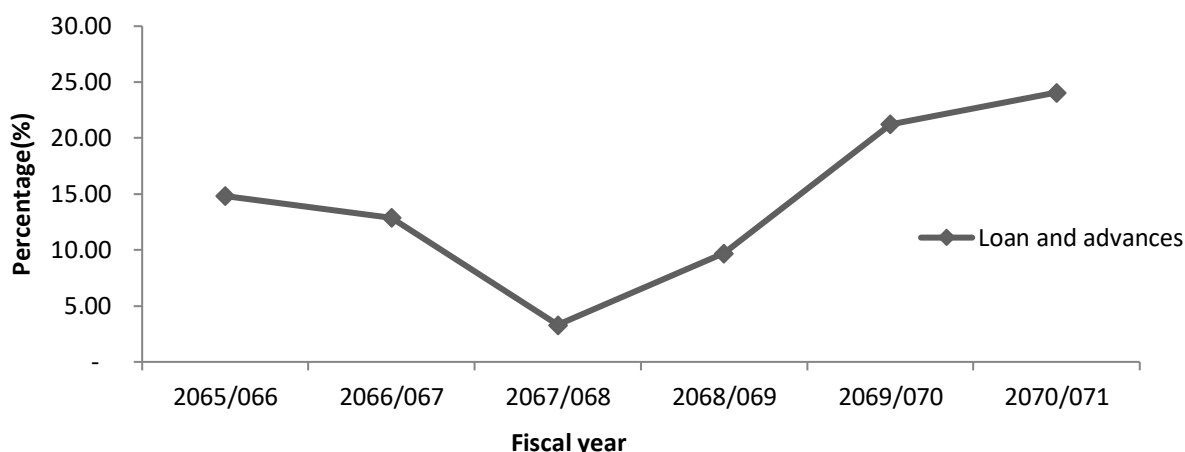


Figure 4.17 shows decrease in growth rate of loans and advances in F.Y.2065/066 to F.Y. 2067/068 followed by increasing trend till the end. Overall, the growth rate of loans and advances is satisfactory and bank is successful in providing sufficient loans and advances to the customer.

4.5.2 Growth rate of loan recovery

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

The calculated growth rates are shown in table 4.17:

Table 4.17

Growth rate of loan recovery

(In NRs. millions)

Fiscal year	Loan Recovery	Ratio (in %)
2065/066	2,360.25	-31.86
2066/067	1,763.49	-25.28
2067/068	1,402.23	-20.49
2068/069	1,432.05	2.13
2069/070	743.12	-48.11
2070/071	820.20	10.37
Mean		-18.87
S.D		19.84
C.V		-105.124

(Source: RBB Annual Report)

Table 4.17 shows growth rate of loan recovery of RBB from F.Y. 2065/066 to F Y2070/071. The highest amount of loan recovered by RBB is Rs. 2360.25 million in F.Y. 2065/066 whereas lowest amount of loan recovered by RBB is Rs743.12 million in F.Y. 2069/070. The growth rate of loan recovered is not uniform or stable. The growth rate has increasing from F.Y. 2065/066 to F.Y. 2068/069 and again it is decreased to -48.11 percent in F.Y. 2069/070. After that, the ratio has increased to 10.37 percent in F.Y. 2070/071

Within these periods, the average loans collection growth is negative which is very low from bank point of view in collecting loans from customers. Similarly, the S.D is 19.84 percent and C.V is -105.124 percent which shows extreme inconsistency in loan recovery rate of RBB Overall, the bank is very slow or passive in collecting loan from customer at right time. It also shows the lack of commitment or enthusiasm in making loan recovery from customer. Thus, the bank management should introduce new plans and policies for speedy recovery of loan from the customers. The growth rates of loan recovery are presented in figure 4.18.

Figure: 4.18
Growth rate of loan recovery

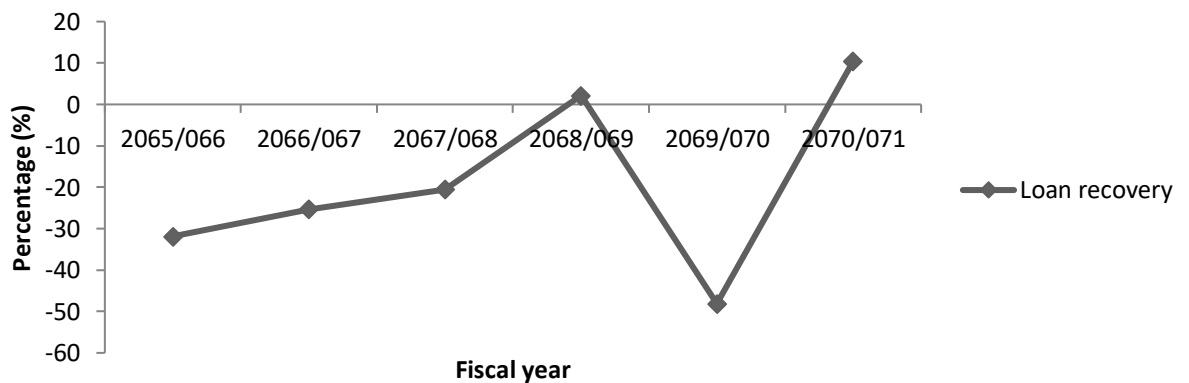


Figure 4.18 depicts increase in growth rate of loan recovery from F.Y. 2065/066 to F.Y. 2068/069 which is a bit good sign for bank. But again the growth rate has decreased from F.Y. 2068/069 to F.Y. 2069/070 and then increased. Since, the growth rate is negative, the loan recovery position of bank is not so strong.

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

from customers at appropriate time. Thus, the bank should adopt new methods and techniques to recover loans from customers at proper time.

4.6 Liquidity position

Liquidity is the bank's ability to maintain cash which is adequate to fulfill cash demand for loan and deposits withdrawal. Keeping cash idle or maintaining high liquidity position has adverse effect on profitability of the bank. On the other hand low liquidity cannot support bank to meet expected and unexpected financial demand which result in higher liquidity cost, lowering trust of depositors and creditors and negative impact on goodwill cost of the bank. Against the benefit associated with maintaining liquidity, one must balance the cost. Liquid assets, like all other assets, have to be financed. According, the cost of liquidity may be thought of as the differential in interest earned on the investment of fund in liquid assets and the cost of financing. If the bank could both borrow and lend at the same interest rate, there would be no 'cost' to maintaining whatever level of liquidity was desired to reduce the probability of technical insolvency. If imperfection in the capital market results in the borrowing rate exceeding the lending rate there is a 'cost' to maintaining liquidity. Under this condition a trade-off exists between the benefits associated with liquidity and the cost of maintaining it (Van Horne, 2006).

4.6.1 Liquid assets to total deposits ratio

Liquid assets to total deposits ratio is composed by dividing total liquid assets to total deposits. It measures the percentage of liquid fund with the bank to meet short term obligation.

Table 4.18:

Liquid assets to total deposits ratio

(In NRs Millions)

Fiscal Year	Fiscal Year	2066/067	2067/068	2068/069	29 39/70	2070/071
Liquidity Assets	27,187.32	21,836.52	21,378.37	43,836.28	45,210.43	57,099.05
Totals Deposits	68,160.93	68,625.87	73,941.30	87,782.20	91,097.98	107,269.94
Liquidity Assets to deposits (%)	39.89	31.82	28.91	49.94	49.63	53.23

(Source: Annual Report of RBB)

The data in table 4.18 shows that the liquid to total deposits ratio of RBB are 39.89%, 31.82%, 28.21%, 49.49%, 49.63% and 53.23% in the F.Y. 2066/067 to 2070/2071 the ratio is maximum in F.Y. 2070/071 with 53.23% and minimum in F.Y. 2067/068 with 28.91 %. It reveals that the ratios are fluctuating. In absolute term, total deposits is increasing during the study period. The liquid assets to total deposits ratio are shown in figure 4.19.

Figure: 4.19

Liquid assets to total deposits ratio

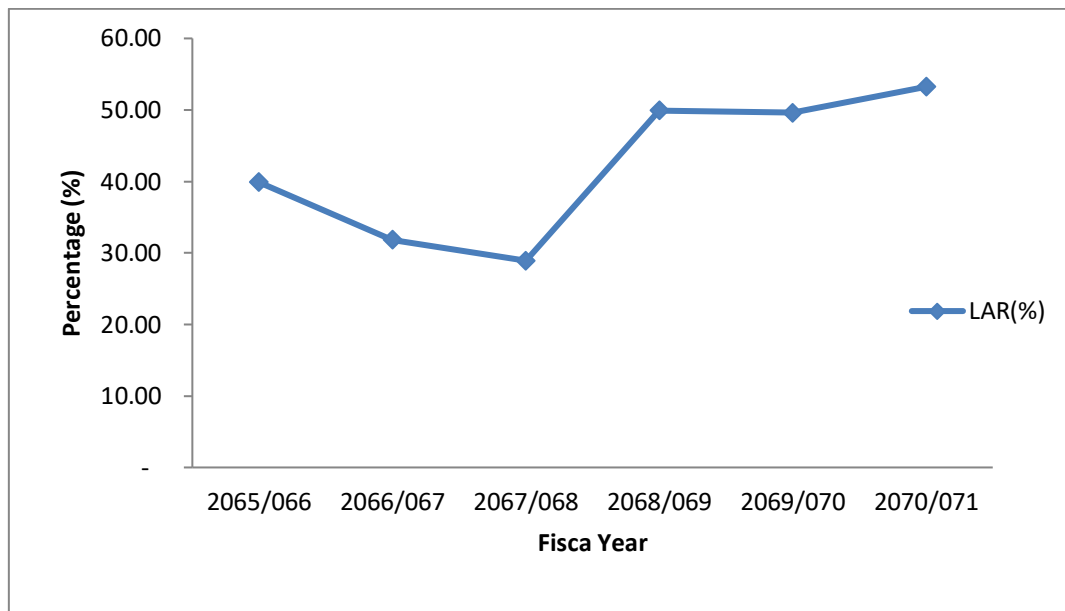


Figure 4.19 shows decrease in liquid assets to deposits ratio in F.Y. 2065/066 to F.Y. 2067/068 and followed by increasing trend till end date. This implies that the liquidity position of the bank is better but more liquidity impacts profitability negatively.

4.6.2 Cash balance with NRB to total deposits ratio

This is the ratio of NRB cash balance to total deposit. It measures the proportion of NRB cash balance to total deposit. It shows whether bank is holding the balance required by NRB. NRB through its directives has been directing range to maintain certain percentage of deposits amount in NRB. The following table shows the cash balance with NRB to total deposits ratio of RBB.

Table 4.19
NRB balance to total deposits ratio

(In NRs millions)

Fiscal Year	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071
Balance at NRB	8,412.75	5,727.44	3,824.18	13,990.02	12,203.73	21,110.28
Totals Deposits	68,160.93	68,625.87	73,941.30	87,782.20	91,097.98	107,269.94
NRB Balance to total deposits ratio (%)	12.34	8.35	5.17	15.94	13.40	19.68

(Source: RBB Annual Report)

The data given in the 4.19 shows that the NRB balance to total deposits ratios of RBB are 12.34 %, 8.35%, 5.17%, 15.94%, 13.40% and 19.64% to F.Y. 2065/66 to 2070/71 respectively. The ratio is maximum in F.Y. 2071 with 19.68% and minimum in F.Y. 2067/068 with 5.17%. NRB balance to total deposits ratio is fluctuating during the study period. The NRB balance to total deposits ratios are shown in the figure 4.20.

Figure: 4.20

NRB balance to total deposits ratio

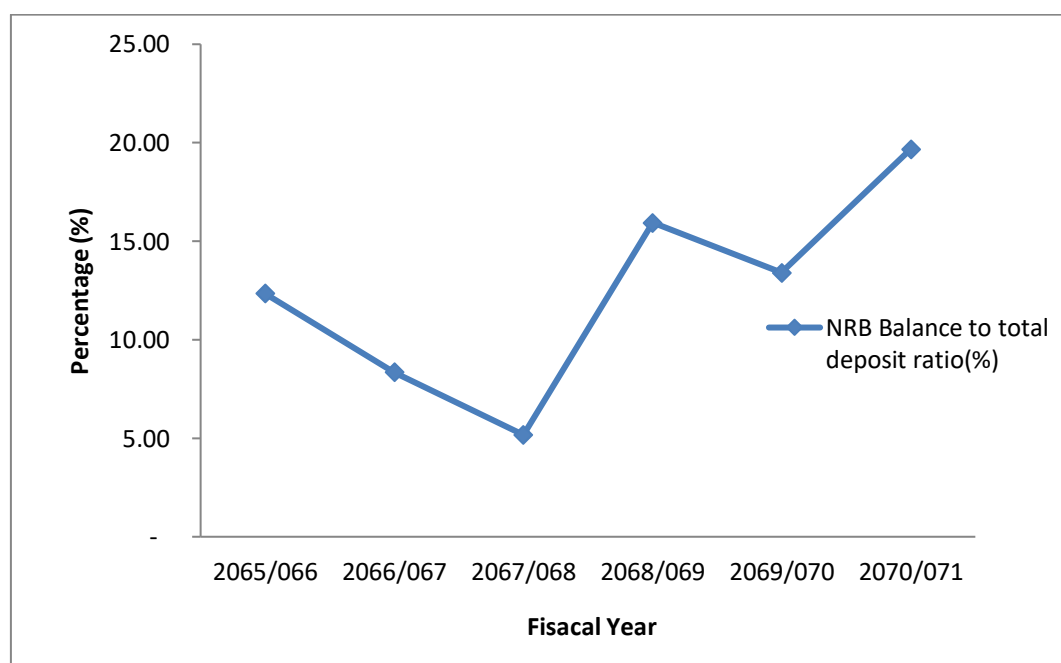


Figure 4.20 shows the NRB balance to total deposits ratio. It shows decrease in F.Y. 2065/066 to 2067/068 and followed by increasing trend till end date with fluctuation.

4.7 Return on deposits and investment

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

4.6. Return on investment

It measures the profit earning capacity of RBB from investment made in different sectors. In this competitive age, every commercial bank needs to expand their investment in various productive sectors. Also, they need to maximize their chance of earning profit as much as possible. Return will be higher if the bank's fund is well managed and efficiently utilized. It is calculated by dividing net return by total investment. After calculating ROI, it is compared with ROA of RBB.

Table: 4.20
ROA and ROI ratio

(In percentage)

Ratio	Fiscal year						Mean	S.D	C.V
	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071			
ROA	2.71	2.67	2.17	1.40	1.44	1.37	1.96	0.59	29.90
ROI	4.30	4.13	3.37	1.80	1.93	1.87	2.90	1.07	37.04

Source: Annex I and II

Table 4.20 represents fluctuating trend of ROA throughout the study period .The obtained ratios of ROA are 2.71 percent, 2.67 percent, 2.17 percent, 1.40 percent,1.44 percent and 1.37percent respectively for the period of six years. Similarly, the ratio of ROI is in fluctuating trend throughout the study period. The obtained ratios of ROI are 4.30 percent, 4.13 percent, 3.37 percent. 1.80 percent, 1.93 percent and 1.87 percent respectively from F.Y. 2065/066 to F.Y. 2070/071. The mean ratio of ROA is 1.96 percent and the mean ratio of ROI is 2.90 percent. It shows return from total investment is high than return from total assets of RBB. From consistency point of view, the C.V of ROA is 29.90 percent and the C.V of ROI is 37.04 percent. The mean ratio of ROI is better than mean ratio of ROA but from consistency point of view, the C.V of ROA is lower than CV of ROI The level of risk is almost similar but return from investment is little high than return from total assets.

It shows RBB has better chance to earn high return from investment made in different sectors.

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

Figure 4.21
ROA and ROI ratio

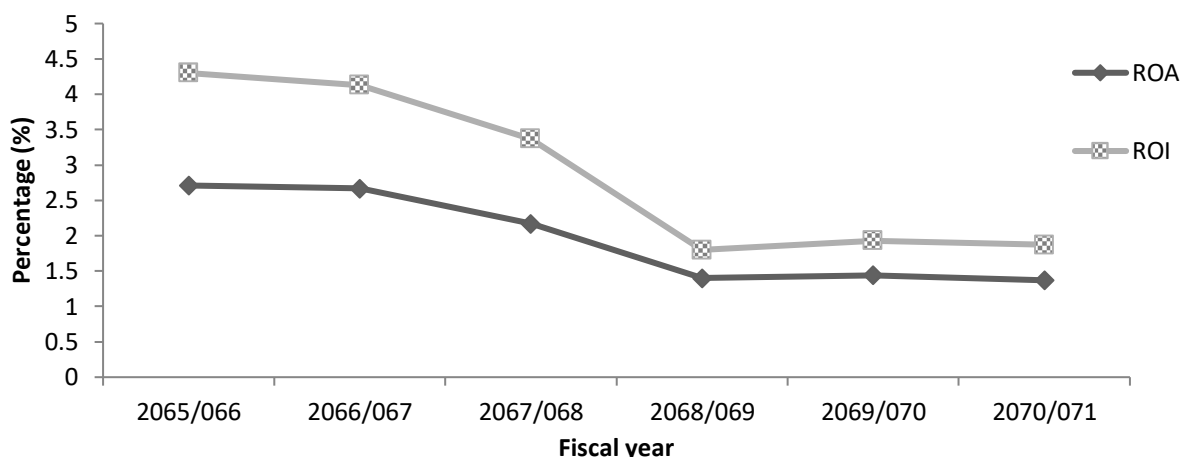


Figure 4.21 shows decreasing and fluctuating trend of ROA and ROI throughout the study period. It shows RBB is getting high return from investment by taking slight high risk. Thus, it is important for RBB to increase the net profit which automatically increases ROI and maintain stable ratio in the future.

4.6.2 Return on deposits

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

Table: 4.21
ROA and ROD ratio

(In percentage)

Ratio	Fiscal year						Mean	S.D	C.V
	2065/066	2066/067	2067/068	2068/069	2069/070	2070/071			
ROA	2.71	2.67	2.17	1.40	1.44	1.37	1.96	0.59	29.90
ROD	2.98	2.93	2.38	1.35	1.67	1.62	2.15	0.65	30.05

Source: Annex II and III

In table 4.21 both ROD and ROA ratios are in decreasing and a bit fluctuating trend throughout the study period. The obtained ratios of ROA are 2.71 percent, 2.67 percent, 2.17 percent, 1.40 percent, 1.44 percent and 1.37 percent respectively for the

period of six years from F.Y. 2065/066 to F.Y. 2070/071 where also obtained ratios of ROD are 2.98 percent, 2.93 percent, 2.38 percent, 1.35 percent, 1.67 percent and 1.62 percent respectively from F.Y. 2065/066 to F.Y. 2070/071. The highest ratio of ROD is 2.98 percent in F.Y. 2065/066 and lowest ratio is 1.35 percent in F.Y.2068/069. Similarly, the highest ratio of ROA is 2.71 percent in F.Y. 2065/066 and lowest ratio is 1.37 percent in F.Y. 2070/071. The mean ratio of ROA is 1.96 percent and the mean ratio of ROD is 2.15 percent It shows high return of RBB from total deposits than total assets. From consistency point of view, the C.V of ROD i.e. 30.05 percent is a bit better than C.V of ROA i.e. 29.90 percent. Thus, it is clear that RBB is getting sufficient return from total deposits without taking high risk and the deposits position of RBB is strong than the total assets of the bank. The calculated ROA and ROD ratios are presented in figure 4.22.

Figure 4.22

ROA and ROD ratio

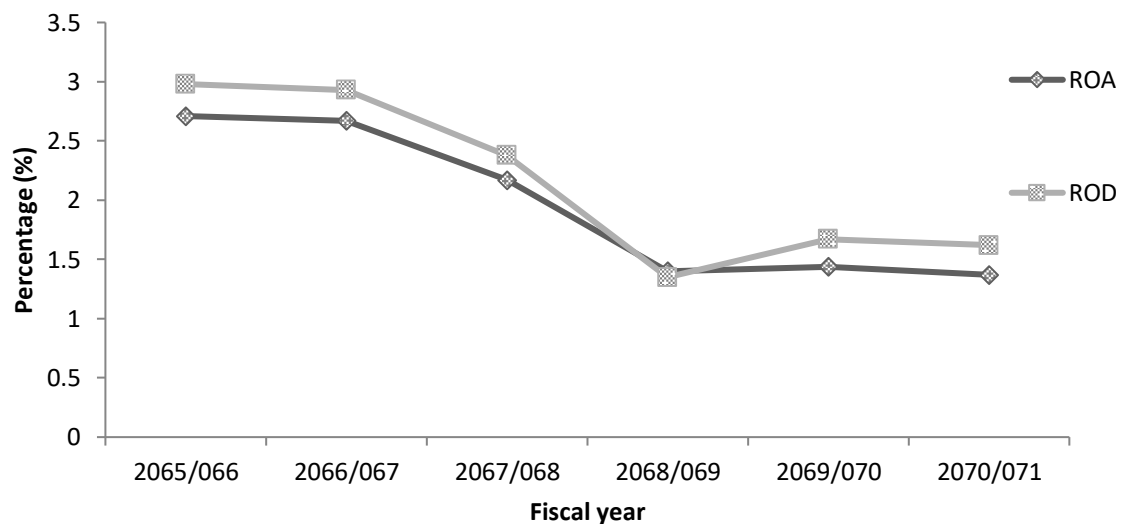


Figure 4.22 depicts decreasing and fluctuating trend of ROA and ROD ratio for the period of six years starting from F.Y. 2065/066 to F.Y. 2070/071. As return on total deposits is higher than return on total assets, it is clear that the deposits position of RBB is strong than total assets. So, RBB needs to increase amount of net profit to increase the ratio of ROA in the future.

4.8 Relationship between deposits and investment

In this competitive age, it is vital to understand the relationship between deposits and investment in any commercial bank, as we know, without deposit, the operation of bank is almost impossible. If there is a large deposits made in the bank, then it shows better liquidity and financial position of bank. The bank may extend the credit

facilities of providing loans to customer and it can invest their funds in different sectors of nation if they have sufficient fund. Also, all the banks can invest in various securities which are highly liquid in market. So, there is a deep relation of deposits with investment in any particular bank.

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

4.7.1 Coefficient of correlation between deposits and investment

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

Table: 4.22

Correlation between deposits and investment

Correlation Coefficient (r)	Coefficient of determination (r ²)	P.E	6×P.E	Remark
0.9870	0.9741	0.0071	0.0427	r>6×P.E

Source: Annex IV

Table 4.22 shows correlation coefficient between deposits and investment of RBB is 0.9870. Similarly coefficient of determination (r²) is 0.9741 which indicates that 97.41 percent of variation in dependent variable (investment) has been explained by the independent variable (deposit). Furthermore, calculated P.E and 6×P.E are 0.0071 and 0.0427 respectively. Here, value of correlation coefficient 'r' is greater than 6 time probable error i.e. 0.9870 > 0.0427. Therefore, there is a significant relationship between deposits and investment of RBB. It is concluded that RBB is successful in utilizing its total deposits in different sectors and as well the bank is getting sufficient return from its investment.

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

4.9 Major findings of the study

The major findings of study on deposits collection and investment trend of RBB are as follows:

1. The mean ratio of saving deposit, fixed deposit, current deposits and other deposits of RBB are 56.81 percent, 14.06 percent, 25.53 percent and 3.60 percent respectively during the study period. Similarly, the mean ratio of growth rate of total deposits is 10.91 percent which is quite satisfactory.
2. The slope of trend line of total deposits is Rs 7908.9 million. Similarly, the slope of trend line of saving deposit, fixed deposit, current deposits and other deposits are positive with value of Rs 2409.8 million, Rs. 2550.1 million, Rs. 1838.6 million and Rs. 1110.5 million respectively.
3. In sector wise investment of RBB, the mean ratio of real estate loan, home and housing loan, marginal loan, term loan, OD loan, other loans and other investments are 3.41 percent, 5.51 percent, 1.01 percent, 3.71 percent, 31.87 percent, 20.88 percent and 33.60 percent respectively.
4. The slope of trend line of total investment is Rs. 9132.9 million. Similarly, the slope of trend line of home and housing loan, OD, trust receipt and working capital loans, term loans and other loans are Rs. 223.08 million, Rs. 3100.5 million, Rs. 129.8 million and Rs. 1856.4 million respectively. But the slope of trend line of real estate loan and marginal loan is negative during the study period which is not good from bank point of view.
5. The mean and C.V of loan recovery ratio during the study period are 3.77 percent and 55.07 percent respectively. Similarly, the mean and C.V of growth rate of loans and advances are 14.35 percent and 48.27 percent respectively. Like that, the mean and CV of growth rate of loan recovery are negative.
6. The liquid assets to total deposits ratio of RBB was maximum in F.Y. 2070/071 with 53.23% and minimum in F.Y. 2067/068 with 28.91%. It proved that the ratios were in increasing trend.
7. The NRB balance to total deposits Ratio of RBB was maximum in F.Y. 2070/071 with 19.68 and minimum in F.Y. 2067/068 with 5.17%. Balance at NRB had fluctuation and increasing trend.
8. The mean and C.V of return on total deposits are 2.15 percent and 30.05 percent respectively whereas mean and C.V of return on total investment are 2.90 percent and 37.04 percent respectively.
9. The correlation analysis shows correlation coefficient 'r' between deposits and investment of the bank is 0.9870 and probable error multiplied by six is 0.0427.

CHAPTER V

SUMMARY, CONCLUSION AND SUGGESTIONS

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

5.1 Summary

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

The study was conducted with the objective to analyze the trend of deposits and investment of RBB over the six years' period starting from F.Y. 2065/066 to 2070/071. In this study, the deposits position and investment composition of RBB are examined to identify. Strength and weaknesses of bank while collecting deposits and investment. The study has been organized in five main chapters consisting of introduction, review of literature, research methodology, data presentation and analysis and summary, conclusions and suggestions. The limitation of the study is random selection of one commercial bank among 30 commercial banks. The study only covers data of six years period which may not be sufficient for further research studies. It has only focused on subject matters and has ignored other various areas of commercial banks. It heavily relies on secondary data and only few primary data are collected for achieving the objectives of the study.

Similarly, prior various literatures have been linking trend analysis of deposits of different commercial banks. They also have analyzed trend of investments of various commercial banks which studies are similar to some extent with this study results.

To achieve the objectives of the study, case study research design has been used along with combination of descriptive and analytical approach. For the study, RBB has been selected as a sample unit out of 30 commercial banks of Nepal and convenience sampling method has been used. The data and information are collected from secondary sources such as annual reports, financial statements, official records, periodicals, official websites, journals and bulletins and various unpublished master' dissertations. In addition to this, few primary data are used in this research work which is collected from unstructured interview with senior staffs in the bank. Furthermore, financial tools such as return on assets, return on investment, return on deposits and growth ratio and statistical tools such as mean, s.d., C.V. and trend analysis have been used to analyze and interpret the data and information.

While analyzing the deposits collection of RBB, the bank has collected maximum amount from saving deposits and the bank has collected minimum amount from other deposits. The growth rate of total deposits collection of RBB is very satisfactory which shows intensity of bank in making deposits collection all the time. Similarly, while making trend analysis of deposit, the bank has good chance to collect high other deposits than saving, current and fixed deposits in the future. The analysis of sector wise investment shows RBB is making high investment in OD, trust receipt and working capital whereas the bank has offered very low marginal loans during the study period. It shows bank's negligence to provide more marginal loans to the customers. In trend analysis of investment, the trend line of OD, trust receipt and working capital loan is very sharp than any other forms of investment made by RBB. It shows high chance of RBB to collect more interest from OD, trust receipt and working capital loans in the future. Apart from that, the calculated mean and CV of loan recovery ratio shows low return and high risk while recovering loans from customers. Also, the mean and C.V of growth rate of loans and advances and loan recovery are very poor, it shows poor performance of RBB while recovering loans and advances from the customers in all years. The liquid assets to total deposits ratio found to be fluctuation and increasing trend. NRB balance to total deposits ratio were found fluctuation and increasing trend. So that the bank were in highly liquid condition. Furthermore, the bank is successful in getting high return from total deposits without taking high risk. It depicts strong position of deposits than total investment during the study period. Like that, the value of 'r' is greater than $6 \times P.E$ during the study period. It shows significant relationship between deposits and

investment of RBB and as well it reflects strong performance of RBB to maintain positive relationship between them for such a long period. The major findings of the study have been presented in chapter four.

5.2 Conclusions

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

- The mean ratio of deposits composition shows that the bank has collected high amount from saving and current deposits and the bank has collected low amount from fixed and other deposits. Thus, it is concluded that the fixed and other deposits have made very low contribution to total deposit.
- The slope of trend line of other deposits is very sharp than saving deposit, fixed deposits and current deposit. So, the bank has good chance to collect high other deposits in the future. Even though, the bank has collected very less amount from other deposits, but due to sharp trend line, the bank has good chance to collect high other deposits in the future.
- The mean ratio of sector wise investment shows that highest investment is made in OD, trust receipt and working capital whereas lowest investment is made while offering marginal loan. Thus, the marginal loan has very low contribution to total investment of RBB.
- The slope of trend line of OD, trust receipt and working capital loan is very sharp than investment made by RBB in other various sectors. So, the RBB has good chance to earn high interest from OD, trust receipt and working capital loans in the future.
- The calculated mean and C.V of loan recovery ratio shows low return and high risk of RBB while collecting loans from the customers. Like that, the mean and C. V of growth rate of loans and advances shows high return of bank by taking very high risk. Similarly, the mean of growth rate of loan recovery is very low throughout the study period. Thus, it is concluded that bank is unsuccessful in recovering loans from customers at proper time which is the downfall of their performance while making investment in various sectors.
- The liquid assets to total deposits ratio were in increasing trend. This shows that there is very high proportion of liquid funds then the proportion of

investment in income generating assets and shows lack of specific policy of investment of additional idle funds to high income generating assets in the form of investment.

- The NRB balance to total deposits was found to be in fluctuation and increasing trend. The bank has not maintained the proper NRB balance to total deposits ratio. It can be concluded the bank is properly executing its fund management practices to minimize the liquidity risk.
- The calculated mean and C.V of return on total deposits is better than return on total investment. It is concluded that the position of return on total investment is very weak of RBB. It shows low investment and poor plans and policies of RBB in making investment during the study period.
- From correlation analysis, it is concluded that there is a significant relationship between deposits and investment of RBB as value of 'r' is greater than 6×P.E. But, the amount of total investment is very low than total deposits throughout the study period which may cause few problem while maintaining balance between deposits and investment of RBB in the future.

5.3 Suggestions

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

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

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

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APPENDICES

Appendix A

Exhibit I

Return on total investment (in NRs. millions)

Fiscal year	Net profit	Total investment	Ratio (in %)
2065/066	2032.23	47250	4.30
2066/067	2010.69	48681.97	4.13
2067/068	1759.26	52199.24	3.37
2068/069	1184.48	65801.39	1.80
2069/070	1517.53	78679.7	1.93
2070/071	1733.39	92915.47	1.87
Mean			2.90
S.D			1.07
C.V			37.04

Exhibit II

Return on total assets (in NRs. millions)

Fiscal year	Net profit	Total assets	Ratio (in %)
2065/066	2032.23	75042.93	2.71
2066/067	2010.69	75260.18	2.67
2067/068	1759.26	81223.19	2.17
2068/069	1184.48	84836.07	1.40
2069/070	1517.53	105742.74	1.44
2070/071	1733.39	126856.27	1.37
Mean			1.96
S.D			0.59
C.V			29.90

Exhibit III

Return on total deposit (in NRs. millions)

Fiscal year	Net profit	Total deposit	Ratio (in %)
2065/066	2032.23	68160.927	2.98
2066/067	2010.69	68623.160	2.93
2067/068	1759.26	73924.078	2.38
2068/069	1184.48	87775.031	1.35
2069/070	1517.53	91097.978	1.67
2070/071	1733.39	107,269.93	1.62
Mean			2.15
S.D			0.65
C.V			30.05

Exhibit IV

Coefficient of correlation between deposit and investment of RBB

(in NRs. millions)

F.Y.	Deposits (x)	Investment (y)	dx= x- \bar{x}	dy= y- \bar{y}	dx ²	dy ²	dx.dy
2065/066	68160.93	47250.00	-14647.59	-17004.63	214551902.57	289157384.75	249076829.60
2066/067	68623.16	48681.97	-14185.36	-15572.66	201224362.67	242507687.57	220903723.09
2067/068	73924.08	52199.24	-8884.44	-12055.39	78933262.27	145332387.87	107105366.29
2068/069	87775.03	65801.39	4966.51	1546.76	24666258.00	2392471.65	7682012.96
2069/070	91097.98	78679.70	8289.46	14425.07	68715158.14	208082692.59	119576064.19
2070/071	107269.93	92915.47	24461.41	28660.84	598360709.65	821443845.04	701084675.38
Total	496851.10	385527.77	0.00	0.00	1186451653.3	1708916469.4	1405428671.5

Mean value, $\bar{X} = \frac{\sum x}{N} = \frac{496851.10}{6} = 82808.52$

$$\bar{Y} = \frac{\sum y}{N} = \frac{385527.77}{6} = 64254.63$$

$$\begin{aligned} \text{Coefficient of correlation (r)} &= \frac{N\sum dx.dy - \sum dx.\sum dy}{\sqrt{N\sum dx^2 - (\sum dx)^2} \sqrt{N\sum dy^2 - (\sum dy)^2}} \\ &= \frac{6 \times 1405428671.5 - 0}{\sqrt{6 \times 1186451653.3 - 0} \sqrt{6 \times 1708916469.4 - 0}} \\ &= 0.9870 \end{aligned}$$

Coefficient of determination (r^2) = 0.9870 × 0.9870 = 0.9741

$$\text{Probable Error (P.E)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9741}{\sqrt{6}} = 0.0071$$

$$6(\text{P.E}) = 6 \times 0.0071$$

$$= 0.0427$$