

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Commercial banks are the heart of the financial system. They hold the deposits of individuals, government establishment and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government establishments. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern, which is mainly confined to finance for the development of the trade, commerce and industry. Trade, commerce and industry are the prime factors of the economic development. Bank is a financial institution, which primarily deals in borrowing and lending. Banking is a vital part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprises.

Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of national outputs, income and employment, solving the problem of inflation and balance of payments. Making the economy free from the burden of foreign debts. Domestic capital formation helps in making a country self-sustainable. According to the classical economists one of the main factor that helps capital formation, has the accumulation of capital. They though capital formation indeed plays a decisive role in determining the level and growth of national income and economic development. It seems unquestionable that the insufficient capital accumulation is the most serious limiting factors in

underdeveloped countries. In the view of many economists, capital occupies the central and strategic position in the process of economic development in an underdeveloped economy lies in a rapid expansion of the rate of its capital investment. So that it attains a rate of growth of output which exceeds the rate of growth of population by the significant margin. Only with such a rate of capital investment will the living standard begin to improve in a developing country.

The main objective of deposit mobilization is to convert idle saving into active saving. Capital formation is possible through collecting scattered unproductive and small saving from the people. This collected fund can be utilized in productive sector to increase employment and national productivity. Deposit mobilization is the most dependable and important source of capital formation. Collecting scattered amount of capital and investing the deposited fund in productive sector to increase the income of the depositor is meant Deposit Mobilization. In other words, investing the collected fund in the productive sectors and increasing the income of the depositors, it also supports to increase the saving through the investment of increased extra amount.

### **1.1.1 Banking History in Nepal**

The actual fact of the origin of the modern banking is up to date of mystery. So, when, how and where the modern banking actually comes in to existence couldn't be pointed out. But from the different historical facts revealed that some sort of banking activities have been carried out since the time of immemorial. At that time, merchants, moneylenders, Gold Smiths etc, did the banking transactions. Later the transaction starts increasing and they being the activities of money exchange, secure the valuable goods, deposits money, Lending money and so on. And for all the activities, the written receipt is began to use; and the modern form of banking formed thereafter.

The word bank was derived from the Italian word "Banco" which means accumulation of money or stock. Bank as an institution was originated from Italy. The Bank of Venice, which was established in 1157 AD, was the first bank in the history of banking. The Bank of Barcelona, Spain, which was established in 1401 AD, was the second, bank of the world. The first Central bank though was the bank of England, which was established in 1844 AD.

Bank can be briefly defined as the financial intermediary between the deposits and the credit seekers. The inter-mediation takes place when banks accept deposits from general public, corporate bodies and private organizations and deploys those deposits for profitable purposes in the form of loans and advances. Bank can be described as the custodian of saving of general people and establishment as well. It would be quite impossible for the entrepreneurs to acquire the saving of general public for investment without banks. Therefore, the bank can be best described as the financial institution which accepts saving of public by providing them with certain rate interest and loans it to needy investors charging certain rate of interest and earns some profit in the process of inter –mediation. Modern banking being a lot more than just deposit and loans, cater a range of services viz. remittance of money, letter of credit, bank guarantee, issue of money, controlling monetary activities of the entire nation.

Though modern banking practices are of recent origin in our country, historical evidences show the presence of some crude banking practices in the earlier period of time. The contributors to the development of a Nepalese banking system according to the respective time are considered to be King Guna Kama Dev, a Sudra Merchant Shankhadhar, the business group ‘Tankadharies’ of Kantipur and also ‘Tejarath’ a Government financial institution established by Rana Prime Minister Ranaddip Singh. Moreover, the setting up of ‘Tejarath’ Adda, considered as The father of modern banking institutions in Nepal has been regarded as the first remarkable step in organized banking. ‘Tejarath’ which was established in the government sector provided its services only to the civil servants and excluded the services to general public. Private moneylenders, following certain malpractice, used to charge unreasonable rates of interest, which caused inconvenience and difficulties to the people of the country.

The need of a commercial bank was felt to eliminate prevailing hindrances caused by private moneylenders to the general public. As a result, the ‘Tejarath’ was replaced by a modern commercial bank. The first bank to be initiated in Nepal was the commercial bank. The pioneer in the modern banking history of Nepal Banks Limited which was established in the year 1994 BS. Nepal’s central bank – Nepal Rastra Bank – was established in 2013 BS to perform the functions of central bank in Nepal.

Subsequently, another state owned commercial bank, Rastriya Banijya Bank was established in 1966 A.D. and Agriculture Development Bank was established in 2024. The Government of Nepal approved joint ventures banks to operate on the country only in the year 2041 BS. Then came the hoard of joint venture public Limited commercial banks. The first joint venture bank is Nepal Arab Bank Ltd, which is called Nabil bank at present, was established in 2041 BS. Nepal Indosuez Bank Ltd. And Nepal Grindlays Bank Ltd. was established in the year 2042 BS\ and 2043 BS respectively. In the year 2049 BS, Himalayan Bank Limited was established with the joint venture of Habib Bank Limited of Pakistan. Nepal SBI Bank followed Himalayan Bank limited in the year 2051 BS. The year 2051 BS saw three new banks in the banking history. Nepal Bangladesh Bank Ltd., Everest Bank Ltd. And Bank of Kathmandu Ltd was established in 2051 BS. Nepal Bank of Ceylon Ltd., Lumbini Bank Limited and Nepal Industrial and Commercial Bank Ltd were established in 2052 BS, 2053 BS and 2054 BS respectively. Shiddhartha Bank, Laxmi Bank and Global Bank were established in 2059,2058 and 2063 B.S.

### **1.1.2 Profile of Rastriya Banijya Bank**

Rastriya Banijya Bank (RBB), the fully government owned bank and commonly accredited as the people's Bank in Nepal, established in 1966 A.D, has completed glorious 42 years of it's service. The Bank's slogan "Its Your own Bank" signifies the importance of RBB in the socio-economic development of the country. Since its establishment, RBB has remained an indispensable financial institution of the Nepalese society and economy.

Although RBB ranks No.1 position in terms of total deposits (Rs.50.34 billion) and in the terms of loan/investment portfolio (Rs.38.10 billion), as of 16 July 2007 A.D. The Bank's performance has been irregular in past years necessitating the government of Nepal to contract a team of 19 banking professionals to restructure the Bank with financial assistance of the World Bank and DFID. The new Management Team, of whom 16 are Chartered Accountants, joined RBB in January, 2003 A.D. under a two year contract and in January 2005 A.D., the Team was extended for an additional year until December, 2007 A.D. Key elements of the Team are expected to be retained for an additional period until the restructuring is sustainable.

RBB has the largest branch network in Nepal, covering 48 branches in the mountainous region, 46 in Terai region, and 19 in the Kathmandu Valley. The Branch Operations Department is responsible for supervising all 113 branch network. The Internal Audit Department monitors the work of the branches and regional offices. With the corporate office located at Singhadurbar plaza, RBB has a staff of 3,500 and maintains 113 branches located throughout the country enabling the bank to provide banking products and services to all segments of the national economy accompanying the rural and agricultural needs as well as the largest industrial and commercial enterprises.

## **1.2 Focus of the Study**

There should be proper utilization of resource for the rapid development of the economy in the developing countries. Commercial banks do this works by developing the saving habit of people by collecting them in small scattered form and utilizing them in further production of the country. So, commercial banks are the most important institutions which increase the collection and utilization of small scattered saving of the general public.

The main focus of the study is the problem of deposit mobilization and proper utilization by RBB. The study has been done on study of deposits, market share of RBB in terms of deposits, deposit growth in RBB, deposit mix of RBB.

The study also dealt with the efficiency of RBB and economic development of country and also how RBB can use the deposit to fulfill the financial needs of the country. But, the most important part of the study is whether RBB is able to utilize the scattered resources and efficiently utilizing them.

## **1.3 Statement of the Problem**

The procedure of loan taking is very lengthy in commercial banks. Further, banks are afraid of securities in those loans other than priority sectors. For the development works, loan may be needed for long term, medium term or short term also. But commercial banks generally like to give short term loan only in other than priority

sector loan. Whatever loan facility is being given by commercial banks are not sufficient. The loan and advances which commercial banks provide is very limited. Most of the people, who can have saving, are using their saving in some unproductive sectors like to purchase land and building, to purchase jewelry etc. It is happening due to lack of proper knowledge and advertising of commercial banks. Due to the above mentioned problems, not only the deposit mobilization, but as a whole commercial banks are in hard situation to survive.

The need of deposit mobilization for economic development of a country is no more to question. But we are facing an acute problem of resources mobilization. We have 32 commercial banks in Nepal which are very much considered to be vital financial institution to mobilize domestic resources. Under the prevalence of these situations the study has try to deal with following problems.

- What is the relationship between deposit and loans and advances?
- What is the effectiveness of deposit mobilization of RBB?
- How far the interest rates of deposits have positive relationship with the deposit collection of RBB?
- What is the increasing or decreasing trend of deposit mobilization of RBB?
- What are the sectors of the investment of RBB?

#### **1.4 Objectives of the Study**

The major objective of the study is to develop an overall strategy for managing the deposit of RBB. Further the study also studied the relationship between total deposit amount and total credit granted by RBB.

To fulfill these primary objectives, the following secondary objectives also had been considered:

- To examine and analyze different types of deposit schemes offered by RBB.
- To explore the trend of deposit and lending of RBB.
- To evaluate the interest rate on deposit and lending.
- To analyze the relationship between deposit and loan of RBB.

## **1.5 Significance of the Study**

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

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

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

## **1.6 Limitations of the Study**

- Most of data used in the study were of secondary data. So, reliability of this analysis depends upon the pooled secondary data.
- This report covers the data from fiscal year 2055/056 to 2067/068.
- This study is concerned only on deposit collection and its utilization by RBB.
- The same data obtained through different sources varied to some extent.
- Some data may not be accurate due to poor data processing system.

- This study was based on the financial statements like balance sheet, profit and loss account and cash flow statement which provided the quantitative information.

## **1.7 Organization of the Study**

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

The first chapter covers the Introduction such as Background of the Study, Focus of the Study, Statement of Problem, Objective of the Study, Significant of the Study, Limitation of the Study and Organization of the Study. The second chapter deals about the Review of Literature which includes Conceptual Review, Review of Previous Thesis and Basis Feature of this Research. The third chapter includes Research Methodology with Research Design, Sources of Data, Population and Sample, Data Collection Method and Data Analysis Tools. The fourth chapter Data Presentation and Analysis includes the details like Deposit Positions of RBB, Credit Position of RBB, Credit Deposit Ratio, Current Deposit Position, Saving Deposit Position, Fixed Deposit Position & major Findings and finally last chapter includes the Summary, Conclusion and Recommendation of the study.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**



This chapter is basically concerned with review of literature relevant to the topic 'Deposit Mobilization'. The purpose of reviewing of literature is to develop some expertise in one's area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously.

## **2.1 Conceptual Review**

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

Commercial institutions are those financial institutions, which deals in accepting the deposits of people and institutions and giving loan against securities. They provide working capital needs of trade, industry and even to agricultural sectors. Moreover commercial banks also provide technical and administrative assistance to trade, industries and business enterprise. Commercial banks are a corporation which accepts demand deposits, subject to check and make short term loans to business enterprises, regardless of the scope of its other services.

Commercial banks are the heart of financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individual, business firms and government establishment units.

Therefore commercial banks are those banks that pool together the saving of community and arrange for their productive use. They supply the financial needs of modern business by various means. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short terms needs of trade and industry. They cannot finance in fixed assets. A part from financing, they also lender services like collection of bills and cheque, safe keeping of valuables, financial advising etc to their customers (Vaidya, 2001: 38).

The American institute of Banking has laid down the four major function of Commercial bank such as receiving and handing of deposits, handing payments of its clients making loans and investments and creating money by extension of credit (Principle of Bank Operation, USA: 609).

Principally, commercial banks accept deposits and provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy (Albrol and Gupta, 1971:65).

A commercial banks can be define as an institution which deals in money in words of the Crowther “ Banks collect money from those who have it to spar or who are saving it out of their income and lend this money out against goods security to those who requires it” (Crowther, 1985:58).

However, central bank is the main bank of the any nation that directs and controls all the banks whose existence is in the country. In Nepal, Nepal Rastra Bank is the central bank of the country. All the commercial banks perform their functions under rules, regulations and the directives provided by Nepal Rastra Bank.

Under the free enterprise system like U.S.A. the interest of nation as well as those of individuals and stockholders are supposed to be best served by vigorously seeking profit. But the profit cannot be the sole objective of the any enterprise. It should not be evaluated just on the ground of profit earned. Neither the bank nor the community will be best serve if the banker unreasonably scarifies the safety of theirs fund or the liquidity of their bank in an effort to increase income (Vaidya, 1947: 24 and Nepal Commercial Bank Act).

Commercial banks including joint venture banks, they are mainly receiving the money from depositor and invest in different sectors. So that banks are the main source of development of a nation. In the context of Nepal, it is a poor and least developed county having low per capita income and GDP. As a result, many economic problems such as inflation, devaluation of money trade, trade deficit, budget deficit etc arises. For the sake of removing these problems, many joint ventures are being incorporated in our country by sharing Nepal's and foreign investment towards

making more profit by using the funds in profitable sectors. Therefore bank should be invested in different sector which helps in the growth of national economy.

### **2.1.2 Function of Commercial Banks**

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

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

### **2.1.3 Resources of Nepalese Commercial Banks**

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

1. **Capital:-** So far as the capital funds its concerned, it is only a nominal source. Therefore it can not be used for investment purposes. This capital fund consists of two elements: Paid up capital and General reserve.
2. **Deposit:-** Deposits are the main resources of the commercial banks for advancing loans. Deposits are received from different forms and accounts. There are mainly three types of deposits: Current, Saving and Fixed. In a developing country like Nepal, where the majority of the people are still poor, saving deposits have plays a significant role for the development of the country. Therefore the main source of raising capital is that of deposit. Ronald (1962) rightly says, “The deposits function of the banker is important because it has to aggregate small sums of money lying scattered here and there twenties, fifties and hundreds. Singly these sums have no economic efficiency what so ever but they can accomplish tasks when they are aggregated and employed by the banker.
3. **Internal and External Borrowing:-** These are very important for a developing country like Nepal being an underdeveloped country. Commercial banks alone can not fulfill the necessities of the society. Therefore commercial banks are allowed to borrow from both two sources internal and external. Generally external borrowing means the borrowing from foreign bank, foreign government, International Bank for Reconstruction and Development (IBRD), International Monetary Fund (IMF) etc. Internally commercial banks can borrow from only one source that is from NRB.

#### **2.1.4 Meaning & Definition of Deposit**

Crowther in his book ‘An outline of Money’ has defined Commercial Banks as the institutions, which receive the saving from the people in different accounts\ by paying certain rate of interest. Therefore, Commercial bank draws surplus money from the people who don’t use it at the time and lend it to those who are in the

position to use it for the productive purpose. The primary function of any commercial bank in Nepal is to accept deposits in order to provide loans and advances.

The deposits are the main sources of raising capital, and these deposits are received in different sorts and accounts. Only that deposits which are received in the form of cash or in that of the rights to receive cash will add to the working capital of the bank. But the deposits arising out of the discounting of bills or granting loans won't add to the working capital. Hence deposits may be created either by customers or by the bank itself. The customers created by bank when it credit customers account in the form of loans. The saying of JM children of loans comes true in Modern banking System.

The use of funds depends on the lending policy of the bank as it provides loan from the deposits it receives. The bank is not lending their own money but furnish advances from deposits that are received from the customers. The bank collects the deposits from customers and gives certain percentage of amount as interest. The bank provides security to that money from every dangerous mishappening such as loose, theft, fire, flood, etc.

### **2.1.5 Deposit Collection**

For a commercial banks deposit is the most important source of the liquidity. For, banks financial strength it is treated as a barometer. In the word of Eugene, A banks deposits are the amount that it owes to its customers. Deposit is the lifRBBood of the commercial bank. Though the constitution the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposit. The volume of funds that management will use for creating income through loans and investment is determined largely by the bank's policy governing deposits. In other words when the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposit creating powers of commercial banks forces to raise the assets along with the liability side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank wal thought to be determined by the depositors and not bu bank management. There are regular changes

on this view in the modern banking industry. Thus banks have evolved from relatively passive acceptors of deposits to active bidders for funds. Deposits are one of the aspects of the bank liabilities that management has been influencing through deliberate action (Baidhya, 1999:68).

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

1. **Saving Deposit:-** Saving Deposit is the most popular among all types of deposits. Saving Deposit enables general public to deposit otherwise surplus money, thereby earning certain rate of interest. The Saving Deposit can be withdrawn at anytime with the limitation of amount that can be withdrawn at a time, but at some banks there are no such limitations. Saving Deposit Account can be opened individually or can be operated by more than one. This account is suitable and appropriate for the people of middle class, farmers and the labors who have low income, officials and small businessmen. This type of account can be opened either in local currency or convertible foreign currency as approved by Nepal Rastra Bank. Mainly many of the banks calculate and credit the interest to the account on minimum monthly balances biannually. The bank allows withdrawing the amount limited to Rs. 500,000.00 within a week but the depositor can withdraw the excess or whole deposit with the prior formal notice of 7-30 days. The Bank mostly mobilizes these deposits by investing on Treasury Bills for the period of about three months. Saving deposit bears the features of both of the current and fixed period deposits. Generally most accounts are opened saving deposit in a bank. The Saving Account is given a preference on the payment of interest to other deposits.
2. **Current Deposit:-** Current Deposit Account is mainly for Business Houses, but individual can also operate the account. It is also known as Demand Deposit because of its nature, enabling one to deposit or withdraw at any time the amount, without limitation. Though there is no withdrawing limitation in this account. Its transaction is continual and such deposit can't be invested in the productive sector, so such type of amount remains as stock in the bank. Though the bank can't gain profit by investing it in new sector after taking from the customer, this facility is given to the customer. Therefore the banks

do not provide any interest on it. From such deposit the merchants and traders are benefited more than the individual. The bank should pay as many times as the cheque is sent until there is deposit in his account. The firms with the large volume of daily transaction operate this type of account.

3. **Fixed Deposits:-** Saving deposits are the most rigid in terms of withdrawal. The deposit remains with the bank for the fixed period of time and can't be withdrawn unless the time matures. The primary feature being time in this type of deposit, the deposit is also known as 'Time Deposit'. The rate of interest in Fixed Deposit is comparatively higher and differs according to the duration of the deposit. Bank can not change the interest rate of Fixed Deposit Account before the expire of deposit period but at the renewal, new interest rate as well as other terms and conditions could be altered.

People, who want higher consideration from their surplus money, do not want to gamble in shares or debentures and are scared of business uncertainties; generally open Fixed Deposit Account. There should be Current Account or Saving Account existing previously in the bank to open the Fixed Deposit Account. Interest will be calculated and credited to the depositor's Current or Saving Account automatically on timely basis. Principal amount of deposit will be automatically credited to the depositor's current or Saving Account on final maturity. The Fixed Deposit Account holder is provided only with a Fixed Deposit Receipt and does not get Passbook or Chequebook. Fixed Deposit is the principal source of working capital for loans and advances and investments. The amount can't withdraw before the fixed time.

However, it is apparent that commercial banks basically depend upon the all types of deposits, considered as the main source of working capital for mobilizing in its banking operational functions. Nabil, from its initiation is playing a vital role in the economic development of the nation by collecting otherwise scattered resources in the form of deposits and utilizing them for the productive uses.

### **2.1.6 Interest**

The money which is paid to depositors for their deposit and charged from customer for their loan is called interest. It is very much important factor for the amount of

deposit and loan. The difference between the interest rates of deposit and loan is the main earning for the bank.

### **2.1.7 Loan**

Loan is the money provided to persons or businessman by the bank for meeting their different expenses. It is provided by the bank out of the deposit collected. So, deposit is the major source of the loan. The bank charges certain percentage of interest on the basis of nature of loan. There are different kinds of loans like short term loan, medium term loan or long term loan.

### **2.1.8 Profit and Loss**

According to Prof. Knight – “Profit is not a reward of bearing risk but it is a reward of bearing uncertainty”. Banks provides loan to different people and businessman. It is not certain that all the loans will be recovered or not. If the loans are recovered, the bank will charge a certain percentage of interest from them, which becomes the profit for the bank.

Whenever the amount of expenditure exceeds the amount of income, a loss arises there. It may happen to bank due to the irrecoverable loan, high administrative expenses etc. Such loss should be controlled by the bank.

### **2.1.9 Deposit Mobilization**

In developing countries there is always shortage of the capital for the developmental activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time; people also can not undertake large business because the per capita income of the people is very low while their propensity to consume is very high. Due to the low income their saving is very low and capital formation is also very low. So their saving is not sufficient for carrying on developmental works. To achieve the higher rate of growth and per capita income, economic development should be accelerated. “Economic development may be defined in a very broad sense as a process of rising income per head through the accumulation of capital” (Johnson, 1965:11). But how capital can be accumulation in the developing countries, there are two ways of capital accumulation in the developing country, one from the external sources and other from the internal



sources. From external Foreign Aid, Loan and Grants are main. While in the later financial institutions operating within the country play a dominant role. In the context of Nepal, commercial banks are the main financial institutions, which can play very important role in the resource mobilization for the economic development in the country. Trade, industry, agriculture and commerce should be developed for the economic development.

Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sector to increase employment and National productivity. Deposit mobilization is the most dependable and important source of capital formation (RBB, Upahar, 2055, No. 4:14). Economic development so defined is necessary and so sufficient to generate rates up savings and investment. The generation of high rates of saving and thereby investment is possible only through the commercial banks. Commercial banks occupies greater role in economic development by generating the savings towards the desired sectors from one place to another, communicating with its branches and agencies in different parts of the country and the world and advising to the commercial people.

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

Banking transaction refers to the acceptance of deposits from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period according to banking rules and regulations. This definition clearly states that Deposit Mobilization is the starting point of banking transactions. Banking

activities can be increased as much as we can mobilize the accumulated deposit effectively (NRB, Nepal Bank Patrika, 2037:4-7).

Increasing the income of the low-income group of people and making them able to save more deposit mobilization helps to the collected deposit in desired sectors. Deposit depends among others, on the level of country's per capita income and its growth rate, population growth rate, interest rate on deposits or on the bank accounts, banking and financial facilities and net factor income etc. The national income is the measure of the nation from the economic activities. Saving is the excess of income over consumption. Investment is the expenditure made for the formulation of the fixed capital. Mobilization of saving implies transfer of resources from surplus spending units to deficit units. In these connections, financial intermediaries play an important role in mobilization of voluntary saving. The amount of saving of a typical household in Nepal is small because the people have limited opportunities for investment. They prefer to spend savings on commodities rather than on financial assets. This restricts the process of financial intermediation, which might otherwise bring such as reduction of investment risk and increase in liquidity when capital is highly mobile internally, saving from abroad can also finance the investment need at home. When capital is not mobile internally, saving from abroad will limit investment at home.

#### **2.1.10 Need for Deposit Mobilization**

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report, "Deposit Mobilization why and how" (NRB Bankers Prakashan, 1984 No. 24) Group "A" states the following points as the need for deposit mobilization.

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

- Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms within the country.
- To increase saving is to mobilize deposit. It is because if the production of agricultural and industrial products increases, it gives additional income, which helps to save more, and ultimately it plays a good role in deposit mobilization.
- It is much more important to canalize the collected deposit in the priority sectors of a country. In our developing country we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.
- Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors but also in other sector like food grains, gold and silver etc. Though these loans are traditional in nature and are not helpful to increase productively, but it helps to some extent, to mobilize the bank deposit.

Developed country does not feel the need of deposit mobilization for capital formation due to developed capital markets in every sectors but in an under developed country and developing country deposit mobilization plays a great role for the economic development . So far the developments of these sectors concerned, there is needs of more capital. Again instead of the development of a particular sector, the development of every sector should go side by side. Low national income, low per capita income, lack of technical know how, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical condition etc. are the main problems of economic development of an under developed country like Nepal. So the development process of these sectors on one side and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of an under developed country. We can take this in our country's present context (NRB Bankers Prakashan, 1984: 12).

### 2.1.11 Advantages of Deposit Mobilization

- a. **Circulation of Idle Money:** - Deposit mobilization helps to circulate idle money. The meaning of deposit mobilization is to convert idle saving into active saving. Deposit mobilization helps the depositors habit of saving on one side and it also help to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors. Again, investment in productive sector helps directly in country's economic development and also increases investors' income.
- b. **To Support Fiscal and Monetary Policy:** - Fiscal policy of the government and monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. Deposit mobilization helps to channelize idle money in productive sectors. Again, it helps in money supply which saves the country from deflation and helps central bank's objective of monetary policy.
- c. **To promote cottage industries:** - Deposit mobilization is needed to facilitate cottage industries located in rural and urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it helps not only to promote cottage industries in the area, but also support in the development of the locality as a whole by increasing employment and income of the local people.
- d. **Capital formation:** - Capital plays a vital role for the development of industries. But in an underdeveloped country, where there is always lack of capital to support such industries, capital formation and industrialization is possible through deposit mobilization.
- e. **Development of banking habit:** - One important side of economic development of a country is to increase banking habit of the people. Deposit mobilization helps in this aspect. If there is proper deposit mobilization, people believe on the bank and banking habit of the people develops.
- f. **To check-up misutilization of money:** - Mostly our customs and habits are supported by social and religious beliefs. There is also tendency of copying others and show the superiority in the society by buying unnecessary and luxury items. In such society, deposit mobilization proves itself as a tool to check-up misutilization of money.

- g. **To support government development projects:-** Every underdeveloped country's government needs a huge amount of money for development projects. The deposit collected by commercial banks, can fulfill, to some extent, the need of money to the government for this purpose.
- h. **Co-ordination between different sectors:-** Deposit mobilization helps to collect capital from surplus and capital hoarding sectors. The fund can be invested for the needy sectors i.e. priority sectors. Thus, it helps to fulfill the gap between these two benefited by earning interest in the deposit and the needy sectors by receiving loans and advances. Thus, deposit mobilization helps to keep good co-ordination between different sectors.
- i. **Others:-** Deposit mobilization supports small savers by giving interests, helps to the development of rural economy, protects villagers from being exploited by indigenous bankers, increases investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc. (Bankers prakashan, op. cit. Page no. 24 12-14).

There are various institutions in Nepal that mobilize resources such as Commercial Banks, Finance Companies, Development Banks, Rural Development Banks, Co-operatives, Non government organizations etc. Among them CBs are the most effective institution for deposit mobilization.

Deposit mobilization is affected by various factors such as money supply, inflation, interest rates, branch expansion etc. Here, in this study, mainly interest rates and branch expansion has been considered as effective factor for deposit mobilization.

## **2.2 Review of Related Studies, Journal & Articles**

**Shrestha (2004)**, in his article, '*A study on deposit and credit of commercial banks in Nepal*' conclude that the credit deposit ratio would be 51.30, other things remaining the same. In Nepal, this was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering new field as far as possible, otherwise they might not be able to absorb even the total expenses.

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

**Pradhan (2005)**, has presented a short glimpse on investment in different sector, its problem and prospects through his article “*Deposit Mobilization, its problem and prospects*”. He has expressed that, “Deposit is the life blood of any financial institution, and be it commercial bank, finance company, co-operative or non government organization.” He has added, “In consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector.

**Joshi (2004)**, in the article “*Rural saving mobilization in Nepal*” states that the ability to save and the incentive to save are the two major determinants of saving. The incentive to save as reflected in NRB real interest rate policy can be stretched for with profit. It is highly probable that the further increase in the growth rate of financial saving can be materialized if a flexible policy is pursued to keep real interest rate at a positive level. Eventually the deposit expansion is to be bounded constrained by the low saving ability of the people as indicated by stagnant per capital GDP over the past decade.

For a sustained growth of deposit or of overall saving rate what is needed more is to increase the income level of the people in order therefore to make saving mobilization strategy effective and successful policy should focus on the appropriate steps to tap saving within the existing banking framework while the long run measures should be adopted with a review to raise the investment rate and making it more productive.

**Shrestha (1999)**, Deputy Chief officer of NRB Banking Operation Department, has given a short glimpse on the, “*Portfolio Management in Commercial Banks, Theory and Practice*”. Shrestha emphasis issue in the article. The portfolio management

becomes very important both the individual and the institutional investors. Invest would like to select a best mix of invests assets subject to following aspects.

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

In the view of above aspects following strategies are adopted.

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

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

He has suggested that the bank has international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower,

research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence. According to Shrestha the portfolio management activities of Nepalese commercial banks at the present are in nascent stage. However, on the other hand, most of banks are not doing such activities so far because of the following reasons.

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

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

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



### 2.3 Review of Previous Thesis

**Sanjel (2007)**, has carried out a research work on the topic “*Analysis of Investment Policy of Commercial Bank*”. The main objective of the present study is to analyze the liquidity position as well as the investment policy adopted by NBBL, HBL and SCBNL and comparison of such between themselves. Presently the bankers are facing a huge tension of liquidity and this is not a good signal toward the performance of the banks. The study focuses whether it is backward or forward in investing its fund efficiently in industry average. The specific objectives of the study are given below;

- To evaluate the liquidity, assets management, efficiency and profitability of HBL, NBBL and SCBNL
- To analyze the deposit utilization trend of the HBL, NBBL and SCBNL.
- To analyze the relationship between total investment with other financial variables of HBL, NBBL and SCBNL and comparison between them.
- To recommend the package of workable suggestions and possible guidelines to improve investment policy of HBL, NBBL and SCBNL based on the finding of the study.

Based on this study, her major findings were;

The comparative analysis of liquidity ratio of SCBNL, NBBL and HBL reveals the following facts:

- The mean ratio & CV of current ratio of SCBNL is satisfactory. Only the SCBNL seems capable of paying current obligations. The ratio of HBL seems improving but the NBBL ' trend is deteriorating.
- The mean ratio & CV of cash and bank balance to total deposit ratio of HBL is higher. Higher ratio of HBL shows that it is able to serve the demand of its customers i.e. it is operating at the lower risk. The mean ratio of SCBNL and NBBL are lower than HBL but seems satisfactory. On the basis of CV it can be conducted that the ratio of SCBNL and NBBL are more consistent than that of HBL.
- The mean ratio and CV of cash and bank balance to current assets ratio of HBL in higher. NBBL takes place after HBL. SCBNL is also satisfactory position and has more consistent on the ratios. The ability of HBL to make the

quick payment of its customer deposits on the basis of its most liquid assets i.e. cash & bank balance is higher.

- The mean ratio & CV of investment in government securities to current assets ratio of SCBNL has been found higher and more consistent. SCBNL has better position, HBL has average and NBBL from the point of view of investment in government securities is poor.

**Assets Management Ratio:** The comparative analysis of assets management ratio reveals the following facts:

- The mean ratio of loan & advances to total deposit of NBBL is higher. HBL seems to be more stable than others. Large proportion of total deposit of NBBL has been utilized on loans & advances than HBL & SCBNL.
- The mean ratio & CV of total investment to total deposit of SCBNL is higher and stable i.e. SCBNL mobilizes its more deposits on investment. HBL stands in average with greater volatility and NBBL made low investment.
- The mean ratio and CV of loan & advances to total assets of NBBL is higher i.e. it mobilizes large proportion of total assets on loans & advances with slightly higher variability. It clearly shows that NBBL focuses to mobilize fund on loans and advances. HBL stands for same on second than SCBNL.
- The mean ratio & CV of investment on government securities to total assets of SCBNL is higher and more stable, i.e. SCBNL is strong to mobilize its total assets on investment in government securities. NBBL has greater variability and invested lower proportion and HBL invested moderately.

**Profitability Ratio:** The comparative analysis of profitability ratio reveals the following facts.

- The average ratio & CV of return on loans and advances of SCBNL has been found to be better with greater stability. NBBL and HBL have been failure to maintain high return on its loans and advances.
- The mean ratio of CV of return on assets (ROA) of SCBNL is better than that of NBBL and HBL.
- The mean ratio & CV of return on equity (ROE) of SCBNL is better with more stability. HBL has slightly low ratio but NBBL has failed to maintain the

same for some years. The ROE of SCBNL shows that it has been able to earn high profit through the efficient utilization of its own capital. Moreover, its low CV shows its more homogenous ratio during the study period. This shows the efficient investment policy for mobilization of capital resources.

- The average ratio of interest earned to total assets of NBBL is higher than that of SCBNL and HBL, indicates that NBBL's interest earning power with respect to total assets seems to be very efficient than SCBNL & HBL. And lower CV indicates consistency in the ratios.
- The average ratio of interest earned to total operating income of HBL is higher, it indicates that HBL seems to have earned higher amount of interest income in comparison to SCBNL and NBBL and CV is less, indicates comparatively high degree of stability. NBBL has slightly lower average ratio. The average ratio of all banks is higher. It shows the large amount of their operating income came from interest income.

**Growth Ratio:** The comparative analysis of growth ratio reveals the following facts:

- The growth ratio & CV of total deposit of NBBL is higher. The CV for each bank is higher than mean, there is no stability in deposit collection. SCBNL has lowest growth rate & CV on that HBL has less growth rate & CV than NBBL but higher than SCBNL, NBBL is strong to increase deposits.
- The growth ratio of loans and advances of NBBL is higher. HBL has taken second position and SCBNL has least with greater instability. The ratios are in fluctuating trend. NBBL is stronger in increasing loan and advances.
- Coefficient of Correlation Analysis: The coefficient of correlation analysis between different variables (dependent & independent) reveals the following facts:
  - The value of coefficient of correlation between deposit and loans & advances of HBL is higher than SCBNL and NBBL, which indicates that HBL is in better position to grant loan & advances for mobilizing the collected deposits in comparison to SCBNL and NBBL. NBBL takes second place on the same.
  - The value of coefficient of correlation between deposit and total investment of HBL is higher than that of SCBNL and NBBL, so HBL is in better position and NBBL on same SCBNL takes better place after HBL.

**Trend Analysis:** The comparative trend analysis with the predicted 5 years of SCBNL, NBBL and HBL in terms of deposit, loans & advances and investment reveals following facts.

- Trend values of deposit are in increasing trend. HBL has highly increasing trend in comparison to that of SCBNL and NBBL, which indicates that HBL's deposit collection position in relation to SCBNL and HBL is proportionately better.
- Trend value of loans & advances of NBBL is highly up warded in comparison with SCBNL and HBL. It shows that NBBL is in better in comparison to SCBNL and HBL.
- From trend value of total investment, it has been found that the expected amount is in increasing trend in case of all three banks. It shows that SCBNL's utilization of deposit in terms of total investment is comparatively better than that of NBBL and HBL.

**Test of Hypothesis:** The comparative t-test of hypothesis reveals the following facts:

- There is significant different between mean ratio of loan & advances to total deposit of SCBNL and NBBL and HBL and that of between NBBL and HBL.
- There is significant difference between mean ratio of total investment to total deposit of SCBNL and NBBL and also that of SCBNL and HBL. But there is no significant difference between mean ratio of total investment to total deposit of NBBL and HBL.
- There is significant difference between mean ratio of total investment on government securities to current assets to SCBNL and NBBL. But there is no significant difference on that between SCBNL and HBL, similarly between NBBL and HBL.
- There is significant difference between mean ratio of return on loans and advances of SCBNL and NBBL & between SCBNL and HBL. But there is no significant difference between that of ratio of NBBL and HBL.

**The analysis of variance reveals the following facts:**

- There is significant difference level of investment pattern with respect to total deposit collected by SCBNL, NBBL & HBL.

- There is significant different level of investment pattern with respect to total assets of SCBNL, NBBL & HBL.
- The loans and advances provided by SCBNL, NBBL & HBL is distinct with respect to total deposit.

On the basis of the whole study and conclusions drawn from the study, following suggestions can be provided:

- Although the current ratio of SCBNL is satisfactory but there is no appropriate level of most liquid current assets i.e. cash and bank balance. So, SCBNL should keep adequate level of cash balance, reducing investment in government security.
- SCBNL invested large proportion of its deposit collection in government securities, but SCBNL if not do such and if it attempts to invest more in loans & advances, the ROE & ROA will grow with higher rate.
- Reforming portfolio proportion of loans & advances and investment in government securities, SCBNL should try to attract investors (depositors) to collect more deposits. Data show that SCBNL has efficient administration but beside it, the managerial policy is passiveness or risk averse. So, the banks should try to collect more funds and such fund should be invested in loans and advances to generate more overall profitability.
- NBBL is maintaining excess level of cash and bank balance, due to this it is free from liquidity risk, but it is not beneficial to the bank. So, the excess idle cash balance should be utilized investing in government securities. It helps to increase ROE and ROA.
- It seems that NBBL adopt the aggressive policy i.e. it attempts to invest more and more in loans and advances. So NBBL has higher loan loss risk. The investment policy of NBBL has to be reconsidered and the proportion of portfolio should be rearranged.
- Keeping large amount of cash balance, NBBL's overall profitability is not satisfactory. Also the operating and other expenses are unnecessarily higher, which results the lower. So, NBBL should try to minimize such expenses.
- The deposit collection pattern is lower than loan and investment provided by NBBL, which is harmful in future, so the bank should try to collect more deposit and should focused towards investors (depositors) attention.

- The large proportion of amount invested by NBBL in shares and debentures clears that NBBL is risk taker bank among three banks. But to provide higher return only aggressive policy is not enough. There should be also good administrative management and appropriate internal & external environment.
- HBL focused on portfolio management, even though it has not able to generate appropriate level of profitability. Due to higher operating and other charges HBL is not able to make desired level of return.
- The management of HBL focused only towards policy but failure to manage administration properly, the overall return is lower, so the bank should attempt to minimize its operating & other expenses.
- The level of cash balance and investment in government securities of HBL is to be rearranged by curtaining cash balance. The bank should invest such fund in government securities to make overall profitability.
- The higher proportion of earning retained by the NBBL & HBL which directly affect the ROE. Retained earning is good for financial straightens but reduces the ROE. So the appropriate level of retained earning and other low cost fund that is deposit should be mobilized properly.

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

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

Based on the study his major finds are;

- The cash and bank balance to total deposit ratio of HBL is 7.79 percent in an average, SBL is 7.65 percent in an average as well as NBL has 5.68 percent

and SCBNL has 7.42 percent. The average ratio of HBL is higher than SBL, NBL and SCBNL. The ratios of the banks are found to be in fluctuating. The S.D is 1.58, 5.3, 2.18 and 1.73 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 20.28, 69.26, 38.37 and 23.32 respectively.

- The Loan and Advances to Total Deposit ratio of HBL is 52.77 percent in an average, SBL is 114.72 percent in an average as well as 64.07 percent in an average for NBL and 12.75 percent in an average for SCBNL. The ratios of the banks are found to be in fluctuating. The S.D is 3.77, 36.68, 5.98 and 6.1 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 7.14, 23.26, 9.33 and 16.57 respectively.
- The Total Investment to Total Deposit ratio of HBL is 37.76 percent in an average and SBL is 9.11 percent in an average as well as NBL has 37.04 percent in an average and SCBNL has 53.79 percent in an average. The ratios of the banks are found to be in fluctuating.
- The S.D is 10.86, 6.68, 6.62 and 2.19 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 28.76, 73.35, 17.87 and 4.07 respectively.
- The Investment on Shares and Debentures to Total Working Fund ratio of HBL is 0.13 percent and for SBL is 0.04 percent in an average as well as 5.71 percent in an average for NBL and 31.87 percent in an average for SCBNL. The S.D is 0.08, 0.08, 8.03 and 8.31 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 62.90, 188.99, 140.70 and 26.07 respectively.
- The Liquidity Risk ratio of HBL is 7.79 percent in an average and for SBL is 7.65 percent in an average as well as 85.90 percent in an average for NBL and 80.36 percent in an average for SCBNL. The S.D is 1.58, 5.3, 2.69 and 4.44 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 20.28, 69.26, 3.13 and 5.52 respectively.
- The calculation of correlation coefficient between deposit and loan and advance is 0.96, shows the positive correlation for HBL, SBL has the perfectly positive correlation, NBL has positive correlation coefficient and

SCBNL has also positive correlation coefficient which is 0.828 between deposit and loan and advance.

Based on his findings, the liquidity position of a bank may be affected by internal as well as external factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situations. The ratio of cash and bank balance to total deposit and current assets of SBL is higher than that of other banks. It means SBL has higher cash and bank balance than other banks and it indicates SBL has higher idle cash and bank balance. It may decrease profit of bank. SBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

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

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

**Katuwal (2010)**, has carried out a research work on the topic "*Mobilization of Deposit and Investment of Nabil Bank Limited*". The purpose of the study will be to examine the relationship between the amount of total deposit and amount of total credit granted by Nabil. The main objectives of the study are:

- To examine how far the interest rates of deposits have positive relationship with the deposit collection of Nabil Bank.



- To see the impact of interest rate of loan on the credit extended by Nabil Bank.
- To study the increasing and decreasing trend of deposit mobilization of Nabil Bank.
- To compare the performance of deposit and investment of Nabil.

The major findings of this study are;

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

Through the analysis from the above study, a few recommendations are referred below, which if implemented, may help further to Nabil Bank Limited.

- Nowadays, in the competitive banking industry, the Bank should attract more depositors by providing improved and new services and facilities.
- In order to serve the customer smoothly and swiftly, the bank should avoid manual techniques and adopt office automation.
- Ethics of staff impresses the customers and create interest to improve the performance of the company. Hence, full co-peration from staff must be obtained. Customers satisfactions are affected by the services provided by the Bank, which will effect the collection of deposits. The bank should also provide the training programmed to the employees for the professional development.
- Interest rate structure should be carried out and an appropriate interest rate policy should be formulated so as to attract more savings of the general public.
- The Bank should find out new areas/sectors for investing collected deposits from which it can generate maximum profit. In context of present scenario of the country, health and education can be considered as the best sector for investment, which are more secure and can generate a reasonable profit.
- Since the national economy is approaching towards recession period, all the financial institutions should work towards improving the economic development of the country. The financial institutes should encourage internal business, industries and export rather than imports, so as to reduce the outflow of currencies.
- For the upgrading in the financial health of the banks, the ratio of bad loan has to be minimized substantially other wise it has to keep huge amount in loan loss provision.
- The bank has to create the conductive environment for the revival of sick investment and has to analyze the necessity of Mobilizing additional resource to revive the overall banking sector.
- The fee based activities of bank are found very to be very popular and also has become important in banking sector. These are commission discount and fees, so the bank has increase the off balance sheet transaction to increase the Profit.

- Nepal is full of poor people where there is less saving. Considering it Nabil should target their business segment in the middle family . For this they have to keep the affordable minimum balance to open the account, which will help to expand customer and deposit amount.

## **2.4 Research Gap**

Research gap refers to the gap between previous research and this research. Many research studies have been conducted by the different students, experts and researcher about Deposit Mobilization. In the condition of research process I found that no one is done deep analysis of RBB. Previous researchers were either on the problem or prospects of commercial banks. But some researchers have covered both problems and prospects of commercial bank. Most of researcher was done in vast way. Some researcher covered all the commercial banks and some were either in comparison study between commercial banks or study of commercial banks. But this study is focused on a particular RBB. This study has covered both the problems as well as remedies on deposit mobilization of RBB. This study is specific in order to analyses and explain the present pattern of increasing trends of deposit in the bank although interest rate continuously decreasing.

Previous researcher has not done, moreover this study has not been done by previous researcher as separately. Thus the fill up the gap the current research has been conducted. A large no. of people in Nepal resides in rural areas. Most of them depend on agriculture and agriculture related activities for their live hoods; most of them can't save much to attract deposit taking instructions to open the branch of bank and even the poor and ultra poor in rural areas can save. Their saving could be used to improve the supply of financial resources to rural people themselves; reduces poverty and underdevelopment from rural areas. Most of the commercial banks have a wrong notion that the poor not bankable. They can,t repay their loan and pay rate of interests. So they are interested in profitable business. If commercial banks do not lend their financial resources to rural areas by expanding their banks, they have to depend on funding from bilateral and multilateral donor agencies.

So banks play a vital role in developing country like Nepal. If banks perform well or be able to earn profit, it will definitely support of nation. It shows the important of banks, which helps in national growth. So, this study has been conducted

### **CHAPTER-III**

#### **RESEARCH METHODOLOGY**

A systematic study needs to follow a proper methodology to achieve pre determine objective. Research methodology may be defined as “a systematic process that is adopted by the researcher in studying problem with certain objective and view”. In

other word, research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. It is really a method of critical thinking by defined and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions.

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

### **3.1 Research Design**

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design has been used.

It is the process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study. This study is carried out by using both quantitative and qualitative analysis methods. Mostly, secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of the selected bank is also used for qualitative analysis. Hence, research design of this study is based on descriptive and analytical method.

### **3.2 Population and Sample**

There are 31 commercial banks in Nepal according to NRB. Out of these, RBB is selected to analyze working capital management. The annual financial report is the population of the study. It is quite difficult to adopt the whole population in this study, sample of the 5 years financial statements are take for the study. The sample of the study comprises financial statement, balance sheet and profit & loss a/c of RBB.

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

For the purpose of this study, data are collected mainly from the secondary source. The secondary data are based on the second hand information. Secondary data were gathered much more quickly than primary. Secondary source are bulletins and newspapers of selected banks, annual reports, official document, reference material collected from library.

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

It indicates the sources of data and how they collected. In this study data are collected through published sources. They were collected from the correspondent offices and their respective websites. The annual reports of RBB, NRB publications, the data regarding the profile of RBB and other related documents were collected from internet websites. Master's thesis, books, research papers, articles, journals have been collected mainly from Centre Library of Tribhuvan university, library of Shanker Dev Campus and NRB Magazines and newspapers were from concerned authorities.

After collecting data, as necessarily required, they were separated and analyzed presentation and analysis of the collected data is the main theme of the research work. Collected data were first presented in systematic manner in tabular forms and then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph, charts and tables have been presented to analyze and interpret the finding of the study.

### **3.5 Data Analysis Tools**

For analyzing the data, different kinds of tools are used. The analysis is done according to the nature and quality of the available data. Some simple financial and statistical tools are used like percentage change, credit deposit ratio, growth ratio, coefficient of correlation and trend analysis of important variables.

#### **3.5.1 Financial Tools**

- a. **Percentage Change:** - To find out the changing positions of different amount this ratio is used. This ratio is calculated to measure the acceleration or

retardation of any variables to the company is to take the suitable direction. It is calculated in following way:

Annual percentage change

$$= \frac{\text{Amount of This Year} - \text{Amount of Last Year}}{\text{Amount of Last Year}}$$

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

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

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

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

Where,

$D_n$  = Total amount in nth year.

$D_0$  = Total amount in beginning year

G = Growth rate of amount

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

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

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

**3.5.2 Statistical Tools:** - In this study, statistical tools such as coefficient of correlation analysis and least square linear trend have been used. Following statistical tools are used for this purpose.

- a. **Coefficient of Correlation:-** Correlation is a statistical tool design to measure the degree of association between two or more variables. In other word if the changes in one variable affects the changes in other variable, then the variable are said to be co-related when it is used to measure the relationship between two variables, then it is called simple correlation. The coefficient of correlation measures the degree of relationship between to sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's

method is applied in the study. The result of coefficient of correlation is always lie between +1 and -1. The formula for the calculation of coefficient of correlation between X and Y is given below.

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

Where,

r = Correlation coefficient

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

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

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

- Co-efficient of correlation between total deposit and total credit.
- Co-Efficient of correlation between interest rate and saving deposit.
- Co-efficient of correlation between interest rate and fixed deposit.

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

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

## **CHAPTER -IV**

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

This section of the research includes the collected data of the deposit and interest rate and rational analysis and interpretation of these data helps us in reaching a sound conclusion. In this chapter, the analysis parts have been presented in detail. Different



financial and statistical analysis which are related to deposit mobilization are studied to evaluate and to analyze the performance of RBB. A heading wise presentation of the data and analyzing and interpreting those with the help of the charts, percentage changes etc. have been done accordingly. Different financial and statistical analysis related to deposit mobilization is carried out and their results are presented in this chapter. In this chapter, all years are concerned with Bikram Sambat (B.S)

#### **4.1 Deposit Position of RBB**

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

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

There is a great need of such deposit in developing countries. Banks being the intermediate accepts this sort of money and helps to channelize this in productive sector. So the importance of banks and financial intermediaries is higher too and so RBB also tries to mobilize as much as possible deposit to earn more profit.

RBB provides banking services to the general public and makes more contribution in the economic development of the country. The bank's major activities include collection of deposit. The bank has the largest deposit base comprising of more than 1.1 million depositors.

**Table: 4.1**  
**Deposit Position of RBB**

| <b>Year</b> | <b>Current</b> | <b>Saving</b> | <b>Fixed</b> | <b>Others</b> | <b>Total</b> | <b>% Change</b> |
|-------------|----------------|---------------|--------------|---------------|--------------|-----------------|
| 2055/056    | 3,718          | 7,827         | 10,393       | 159           | 22,097       | -               |
| 2056/057    | 4,215          | 9,549         | 13,094       | 121           | 26,979       | 22.09           |
| 2057/058    | 4,180          | 12,362        | 16,812       | 85            | 33,439       | 23.94           |
| 2058/059    | 4,648          | 15,999        | 17,833       | 96            | 38,576       | 15.36           |
| 2059/060    | 4,973          | 18,974        | 16,490       | 337           | 40,774       | 5.70            |
| 2060/061    | 4,654          | 18,957        | 15,065       | 317           | 38,993       | (4.37)          |
| 2061/062    | 4,742          | 20,892        | 13,580       | 188           | 39,402       | 1.05            |
| 2062/063    | 5,424          | 23,704        | 11,515       | 224           | 40,867       | 3.72            |
| 2063/064    | 6,274          | 26,979        | 9,022        | 741           | 43,016       | 5.26            |
| 2064/065    | 7,883          | 29,746        | 8,145        | 421           | 46,195       | 7.39            |
| 2065/066    | 10,085         | 32,909        | 6,998        | 354           | 50,346       | 8.99            |
| 2066/067    | 12,853         | 40,213        | 4,480        | 445           | 57,991       | 15.18           |
| 2067/068    | 17,642         | 46,103        | 3,208        | 1,023         | 67,976       | 17.22           |

*Source: Annual Reports of RBB*

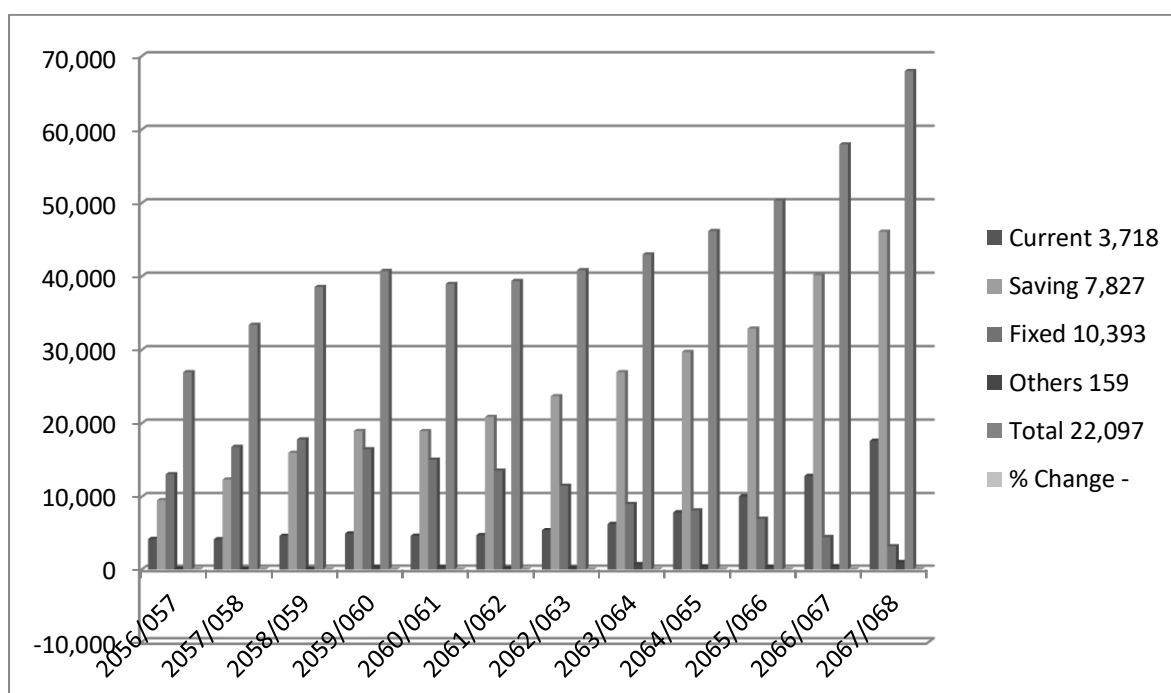
Table 4.1 shows the deposit position of RBB. The total deposit of RBB in 2055/056 is Rs. 22097 million. During the next financial year, the deposit increased by Rs. 4882 million i.e. 22.09% has been increased. The deposit is being increased till 2059/060 but it is decreased during 2060/061 by Rs. 1781 million i.e. 4.37% has been decreased. And afterwards from 2061/062 till 2067/068, the trend of deposit collection seems to be increasing.

The total deposit is decreased during 2060/061 by 4.37%. In this year the total deposit were Rs. 38993 million. The amount deposit in all the accounts is decreased in the period. The current account is decreased to Rs. 4654 million from Rs. 4973 million (Rs. 319 million decreased) whereas saving is decreased to Rs. 18957 million from Rs. 18974 (Rs. 17 million decreased). Similarly, fixed account is decreased to Rs. 15065 million from Rs. 16490 (Rs. 1425 million decreased) and other deposit were also decreased to Rs. 317 million from Rs. 337 million (Rs. 20 million decreased).

From the financial year 2061/062, again the total deposit collection is in increasing position. It means the total deposits of these years are increasing. Here, table no. 4.1

shows the total deposit collection of the bank is in increasing position till 2059/060. It shows the increasing trend of total deposit of the bank except in the year 2060/061. In comparison with other deposit amount, the current deposit is less than the deposited amount in fixed and saving account. The fixed deposit is decreased to 3208 million. However other deposits are increased in the year 2067/068.

**Figure: 4.1**  
**Deposit Position of RBB**



## 4.2 Credit Position of RBB

Total credit is the amount of loans, advances & investments. The bank provides loan by accepting different collateral securities of the general public. The general public gets attracted to take loan and advances from the bank if the interest rate is lower. The bank provides loan to the general public for different purposes like industry, trade, commerce etc.

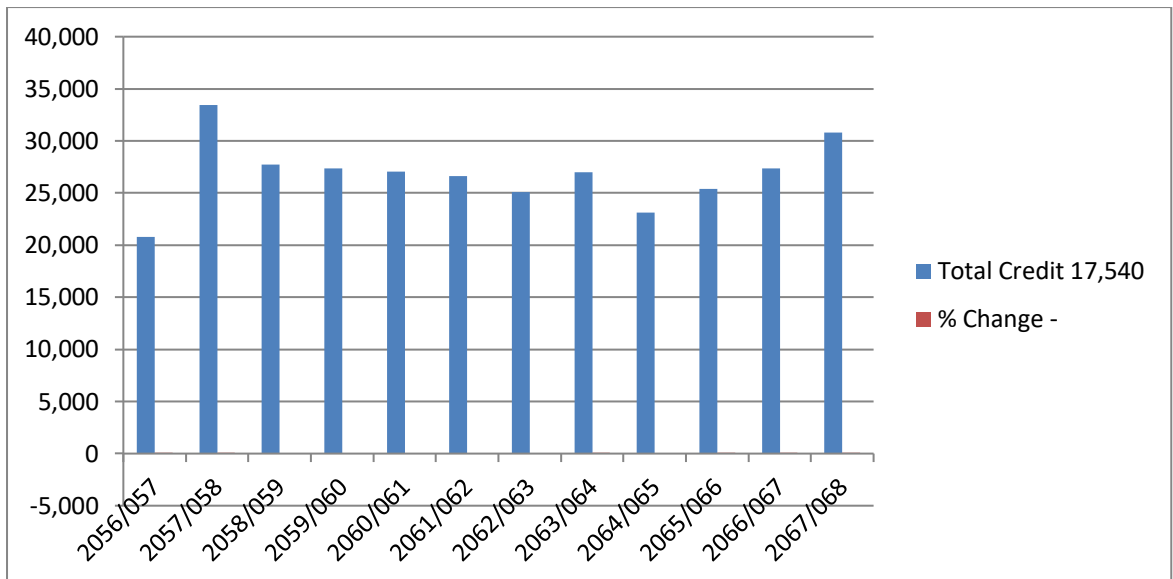
**Table: 4.2**  
**Credit Position of RBB**

| Year     | Total Credit | % Change |
|----------|--------------|----------|
| 2055/056 | 17,540       | -        |
| 2056/057 | 20,780       | 18.47    |

|          |        |         |
|----------|--------|---------|
| 2057/058 | 33,438 | 60.91   |
| 2058/059 | 27,700 | (17.16) |
| 2059/060 | 27,375 | (1.17)  |
| 2060/061 | 27,037 | (1.23)  |
| 2061/062 | 26,608 | (1.59)  |
| 2062/063 | 25,106 | (5.64)  |
| 2063/064 | 27,001 | 7.55    |
| 2064/065 | 23,103 | (14.44) |
| 2065/066 | 25,395 | 9.92    |
| 2066/067 | 27,356 | 7.72    |
| 2067/068 | 30,786 | 12.54   |

*Source: Annual Reports of RBB*

**Figure: 4.2**  
**Trend of Credit Position of RBB**



The table 4.2 shows the overall credit position of RBB. It shows that till the year end 2057/058, the trend of credit is increasing. There is a notable increment of 60.91% in the year 2057/058. But from the year 2058/059, the credit disbursement is decreasing to the year 2062/063. In the year 2063/064, the credit disbursement increased by 7.55% but again in the following year, it is decreased by 14.44% and in the last year of the study, i.e. in 2067/068, is increased by 12.54%.

### 4.3 Credit Deposit Ratio

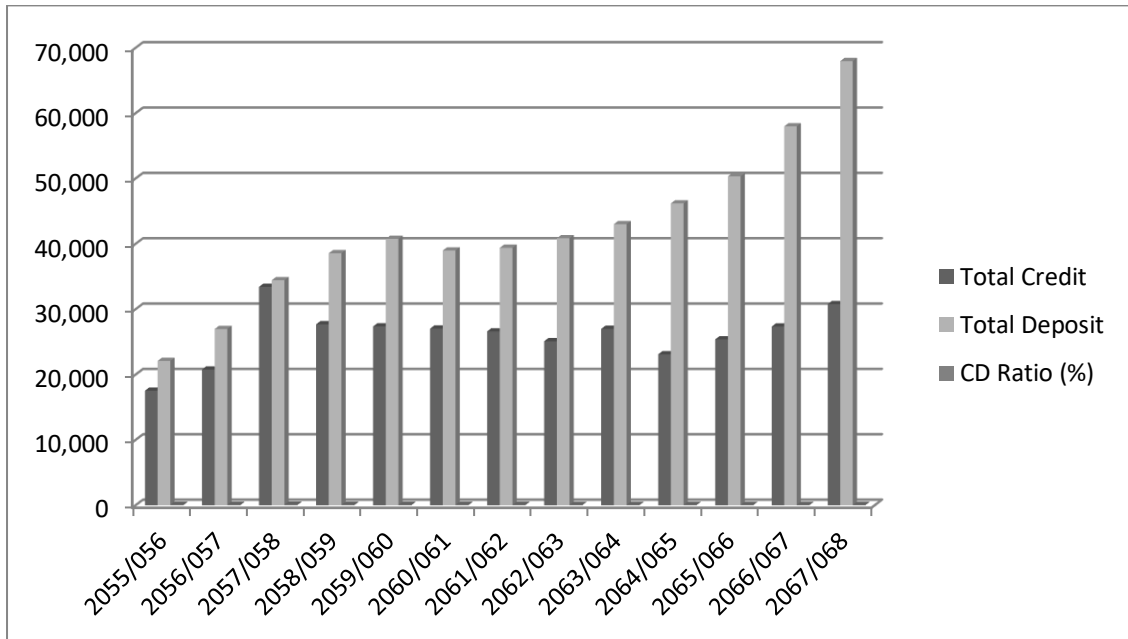
Credit disbursement and deposit collection are the major functions of a commercial bank. The most important feature of a commercial bank is to collect the scattered & small deposits of general public and use these deposits to grant loan & advances to the needy people. Here, Credit Deposit ratio has been used to find out the effective utilization of the available resource of the bank. It also shows the efficiency, ability and idle resource of the bank. The ratio of credit & deposit declares the effective utilization of the collected resources. Generally increase in deposit leads to increase in credit.

**Table: 4.3**  
**Credit Deposit Ratio**

| Year     | Total Credit | Total Deposit | CD Ratio (%) |
|----------|--------------|---------------|--------------|
| 2055/056 | 17,540       | 22,097        | 79.38        |
| 2056/057 | 20,780       | 26,979        | 77.02        |
| 2057/058 | 33,438       | 34,439        | 97.38        |
| 2058/059 | 27,700       | 38,576        | 71.81        |
| 2059/060 | 27,375       | 40,774        | 67.14        |
| 2060/061 | 27,037       | 38,993        | 69.34        |
| 2061/062 | 26,608       | 39,402        | 67.53        |
| 2062/063 | 25,106       | 40,867        | 61.43        |
| 2063/064 | 27,001       | 43,016        | 62.77        |
| 2064/065 | 23,103       | 46,195        | 50.01        |
| 2065/066 | 25,395       | 50,346        | 50.44        |
| 2066/067 | 27,356       | 57,991        | 47.17        |
| 2067/068 | 30,786       | 67,976        | 45.29        |

Source: Annual Reports of RBB

**Figure: 4.3**  
**Trend of Credit Deposit Ratio of RBB**



The table 4.3 shows the Credit Deposit ratio is the highest in the year 2057/058 i.e. 97.38% which is extremely higher. But the ratio is the lowest in the year 2067/068 i.e. 45.29% which is extremely lower. If the ratio is seen in average, it is not in

satisfactory condition. In the year 2057/058, total credit was Rs. 33438 million and total deposit was Rs. 33439 million. Thus the CD ratio becomes 97.38% which was the highest CD ratio during the period of study. But in the year 2067/068, total credit was Rs. 30786 million and total deposit was Rs. 67976 million. Thus the CD ratio becomes 45.29% only which was the lowest CD ratio during the period of study. The trend of CD ratio was decreasing and increasing randomly in the period of study. From the above analysis, it can be said that there is greater relationship between credit and deposit. Increase in deposit leads to increase in credit but sometimes even the deposit is increasing, the credit may be seen in decreasing trend due to various causes.

The above analysis shows that RBB has not been succeeded to mobilize its resources. The bank got succeeded to attract people to deposit their savings. Although the bank has a lot of funds, it could not make the outflow of those funds as credit. So, CD ratio was in declining form. The lower CD ratio indicates the less effective working policy of the bank. The above analysis shows that in the year 2067/068, the total credit was Rs. 30786 million only whereas the total deposit was Rs. 67976 million. It shows the higher amount of deposit of the bank than credit. It is due to the concentration of the bank in deposit collection only. Further, it also shows the inefficient utilization of resources of the bank and indicates the less effective working policy of the bank with new active functions.

#### **4.4 Growth Ratio of RBB**

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

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

Where,

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

$D_0$  = Total amount in the beginning year

$g$  = Growth rate

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

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

#### **4.4.1 Growth Ratio of Total Deposit;**

$D_n$  = Rs. 67,976 million

$D_0$  = Rs. 22097 million

$n$  = 13 years

$g$  = ?

According to formula,

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

$$\text{Or, } 67976 = 22097 (1+g)^{13-1}$$

$$\text{Or, } (67976 / 22097) = (1+g)^{12}$$

$$\text{Or, } (3.076)^{1/12} = 1 + g$$

$$\text{Or, } 1.0941 = 1 + g$$

$$\text{Or, } g = 0.0941 = 9.42\%$$

From the above analysis, it is found that the growth ratio of total deposit of RBB during the period of study is 9.42%. So, it can be said that RBB must improve its deposit collection in higher growth ratio. For this purpose, the bank should reform its existing policy into new activities, programs, policies which may help the bank to increase its deposit collection.

#### **4.4.2 Growth Ratio of Total Credit;**

$D_n$  = Rs. 30,786 million

$D_0$  = Rs. 17540 million

$n$  = 13 years

$g$  = ?

According to formula,

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

$$\text{Or, } 30786 = 17540 (1+g)^{13-1}$$

$$\text{Or, } (30786 / 17540) = (1+g)^{12}$$

$$\text{Or, } (1.7552)^{1/12} = 1 + g$$



$$\text{Or. } 1.0460 = 1 + g$$

$$\text{Or, } g = 0.0460 = 4.60\%$$

From the above analysis, it is found that the growth ratio of total credit is only 4.60% under the period of study which is very low in compared to the growth ratio of total deposit i.e. 9.42%. It shows that the bank is not utilizing the collected deposit as per the growth of total deposit. So, it can be concluded that the bank seems in very weak condition to increase the growth ration of total credit.

#### **4.5 Interest Rate and Different Deposits**

The interest charged on loan and advances and the interest paid to depositors are varied. It caused lower financial intermediation. Therefore NRB directed the commercial banks to limit interest variation between deposits and leading rates up to 5% only, NRB has also provided commercial banks with new calculation method of interest rates for a certain period.

**4.5.1 Interest Rate & Saving Deposit:** - The saving deposit interest rate of RBB is related to the amount of saving deposit. The following table shows the saving deposit amount and interest rates or saving deposit of RBB during the period of study.

**Table: 4.4**  
**Saving Deposit and Interest Rates of RBB**

| <b>Year</b> | <b>Saving Deposit</b> | <b>Interest Rate (%)</b> |
|-------------|-----------------------|--------------------------|
| 2055/056    | 7,827                 | 8.00                     |
| 2056/057    | 9,549                 | 7.00                     |
| 2057/058    | 12,362                | 7.00                     |
| 2058/059    | 15,999                | 6.50                     |
| 2059/060    | 18,974                | 5.25                     |
| 2060/061    | 18,957                | 5.00                     |
| 2061/062    | 20,892                | 4.00                     |
| 2062/063    | 23,704                | 2.00                     |
| 2063/064    | 26,979                | 2.00                     |
| 2064/065    | 29,746                | 2.00                     |
| 2065/066    | 32,909                | 2.00                     |

|          |        |      |
|----------|--------|------|
| 2066/067 | 40,213 | 2.00 |
| 2067/068 | 46,103 | 2.00 |

*Source: Annual Reports of RBB*

According table 4.4 shows that the saving deposit in 2055/056 was Rs. 7827 million when the interest rate was 8%. On the following year, i.e. 2056/057, the interest rate fell down to 7% but the saving deposit was increasing. Here, the interest rate was being decreased by 12.50% and saving deposit was being increased by 22.00%. In 2057/058, the interest rate remained same and again the saving deposit was being increased by 29.46% and it reached to Rs. 12362 million. In 2058/059, the interest rate again fell to 6.5%. But in that year also the saving deposit amount increased by 29.42% and reached to Rs. 15999 million. The interest rate further decreased to 5.25% in 2059/060 and in that year also, saving deposit increased by 18.59% and reached to Rs. 18974 million. In 2060/061, the interest rate again decreased to 5%, but in that year, the saving deposit decreased to Rs. 18957 million. But the deposit had not been decreased in the ratio of decrease in interest rate. The interest rate decreased by 4.76% where as the saving deposit was decreased by 0.09% only. The interest rate again fell to 4% in 2061/062, but the saving deposit increased to Rs. 20892 million by increasing 10.21%.

The interest rate again fell to 2% in the year 2062/063 and till now the rate has not been changed. But in that year also the saving deposit increased to Rs. 23704 million by increasing 13.46%. From 2062/063 till now the interest rate has not be changed but the saving deposit continued to increase. In 2063/064, the saving deposit amounted Rs. 26979 million by increasing 13.82%. In the year 2064/065 and 2065/066 also, the saving deposit seemed in increasing trend by reaching Rs. 29746 million and Rs. 32909 million respectively by increasing 10.26% and 10.63% respectively. In 2066/067 and 2067/068, the saving deposit reached to Rs. 40213 and Rs. 46103 respectively by increasing 22.19% and 14.65%.

The comparison between the saving deposit and the interest rate show that saving deposit is inelastic to the interest rate because it increasing with the time during the period of study except in single year i.e. in 2060/061 only it was decreased. It is due to the reason that the mobilization of resources increases the real income of the general public and they like to save money even in the small scale only. Further, to

take precautions, they like deposit the money in the form of saving deposit in commercial banks although at a very low interest rate. The general public can withdraw their saving deposit whenever they need. As the result, the saving deposit amount kept on increasing.

Changes in the interest rates structure have some positive and negative effects on the deposit. If the interest rate is increased the people may feel well but if it is decreased, they may feel bad. But, according to above analysis, it is seen that the changing (decrease) in interest rate did not effect on saving deposit. Because of lack of security situation in the country and existing political instability and conflict, there is lack of investing opportunities in Nepal. So, there is high risk to invest into productive sector. Further, the general public has less knowledge about alternative investment like stock market. Therefore, they have been depositing their surplus amount into the bank for security purpose even at a very low interest rate. Additionally, the general public has more belief in RBB as it is one of the oldest banks of the country.

**4.5.2 Interest Rate and Fixed Deposit:** - The fixed deposit interest rate of RBB is related to the amount of fixed deposit. The general public like to deposit more in fixed deposit if the interest rate is higher. There are different types of fixed deposit schemes like 3 months, 6 months, 1 year, 2 year etc. But from the financial year 2060/061, the bank has been accepting the fixed deposit maximum for 1 year only. So here the analysis is being made with the interest rate of 1 year fixed deposit only.

**Table: 4.5**  
**Fixed Deposit and Interest Rates of RBB**

| <b>Year</b> | <b>Fixed Deposit</b> | <b>Interest Rate (%)</b> |
|-------------|----------------------|--------------------------|
| 2055/056    | 10,393               | 11.00                    |
| 2056/057    | 13,094               | 9.00                     |
| 2057/058    | 16,812               | 7.00                     |
| 2058/059    | 17,833               | 6.75                     |
| 2059/060    | 16,490               | 6.00                     |
| 2060/061    | 15,065               | 5.50                     |
| 2061/062    | 13,580               | 4.75                     |

|          |        |      |
|----------|--------|------|
| 2062/063 | 11,515 | 3.25 |
| 2063/064 | 9,022  | 3.25 |
| 2064/065 | 8,145  | 3.25 |
| 2065/066 | 6,998  | 3.25 |
| 2066/067 | 4,480  | 3.25 |
| 2067/068 | 3,208  | 3.25 |

*Source: Annual Reports of RBB*

According to the table 4.5 shows the fixed deposit in 2055/056 was Rs. 10393 million when the interest rate was 11%. In the following year i.e in 2056/057, the fixed deposit amount increased to Rs. 13094 million though the interest rate was being decreased to Rs. 9%. Again, in the year 2057/058 and 2058/059, the fixed deposit amount remained increasing and reached to Rs. 16812 million and Rs. 17833 million respectively though the interest rate in those periods remained decreasing and reached 7% and 6.75% respectively. Till this point of time, fixed deposit amount remained increasing where as the interest rate remained decreasing. It shows that the fixed deposit account is also inelastic to its interest rate. No matter how much the interest rate decreased, the fixed deposit amount kept on increasing.

But the increasing trend of collection of fixed deposit stopped from the year 2059/060 and from onward the fixed deposit amount remained decreased till the end of the period of study. Here one important point to be considered that the fixed deposit interest rate never increased further the period of study. In the beginning year, it was 11%. But gradually, it got decreased every year and in 2062/063, it was 3.25%. And from that point of time, the rate remained unchanged till the ending year i.e. 2066/067.

In the year 2059/060, the fixed deposit amount decreased by 7.53% and was Rs. 16490 million. In this year, the interest rate got decreased by 11.11% and was 6%. In the following year also i.e. in 2060/061, the fixed deposit was decreased to Rs. 15065 million with the decrease in interest rate when the interest rate was 5.5%. Additionally, in the year 2061/062 and 2062/063 also the interest rate remained decreased to 4.75% and 3.25% respectively and the fixed deposit decreased to Rs. 13580 million and Rs. 11515 million respectively.

From the year 2062/063 and onward, the interest rate remained unchanged at 3.25%. But the fixed deposit amount remained decreasing in that period also. In the year 2063/064, the fixed deposit amount decreased to Rs. 9022 million and in the year 2064/065 the fixed deposit amount decreased to Rs. 8145 million. Further, in the year 2065/066 and 2066/067 also the fixed deposit amount kept decreasing by reaching Rs. 6998 million and Rs. 4480 million respectively. And finally the fixed deposit decreased to Rs. 3208 million in the year 2067/068.

From the above analysis, it is clear that the fixed deposit interest rate was decreasing from the beginning of the period of study i.e. 2055/056 to 2062/063 and from 2062/063 to the end of the period of study i.e. 2066/067 it remained unchanged. But the amount of fixed deposit kept on increasing till 2059/060 and from onward it got decreasing every year. The level of increase and decrease percentage of fixed deposit amount was not similar during the period of study because in this period, the financial market becomes more competitive and complex. It is due to the cause of stiff competition among commercial banks. The rate of interest rate also kept on decreasing by this competition. The amount of fixed deposit should have been affected by the deposit interest rate in a small extend but whatever be the fixed deposit interest rate, the amount of fixed deposit seemed to in increasing trend till 2059/060. But from the year 2060/061 and onward, the fixed deposit amount got decreased with decrease in the fixed deposit interest rate. From the year 2063/064 and onward also the fixed deposit got decreased every year even the fixed deposit interest rate remained unchanged.

It means the mobilization of resource decreases so a bank gets low interest rate. Due to this, the bank is also forced to decrease the interest rate. So, the general public has decreased the amount deposited in the fixed deposit. The general public does not want to deposit their saving amount to earn a little interest but they want to invest them where they got the higher interest than the bank. They save more money but they do not invest it in 100% because the situation of our country, bad economic condition made them to hesitate to invest whole saving amount in a single field. As a result, for security they want to public the money in the form of interest bearing deposit in the banks for a certain period even at a very lower interest rate.

#### 4.6 The Impact of the Interest Rate on the Total Amount of Credit

Banks gets profit when it uses the deposit amount in proper place. It gives lower interest to the depositor but lending interest rate will be higher when it lends the money in different types of activities. So, it describes how the interest rates impact on the loan amount of RBB. The lending interest rates of RBB are related to the amount of loans. Due to the different competitions, the banks can flow more and more amount of loan even the lower interest rates.

There are many types of lending interest rates of RBB. But there the interest rates of priority sector, hypothecation import loan, overdraft and hire purchase are shown for simplicity. The following table shows the structure of lending interest rates of RBB and total amount of loans during the period of study.

**Table: 4.6**  
**Structure of Lending Interest Rates & Total Amount of Loan**

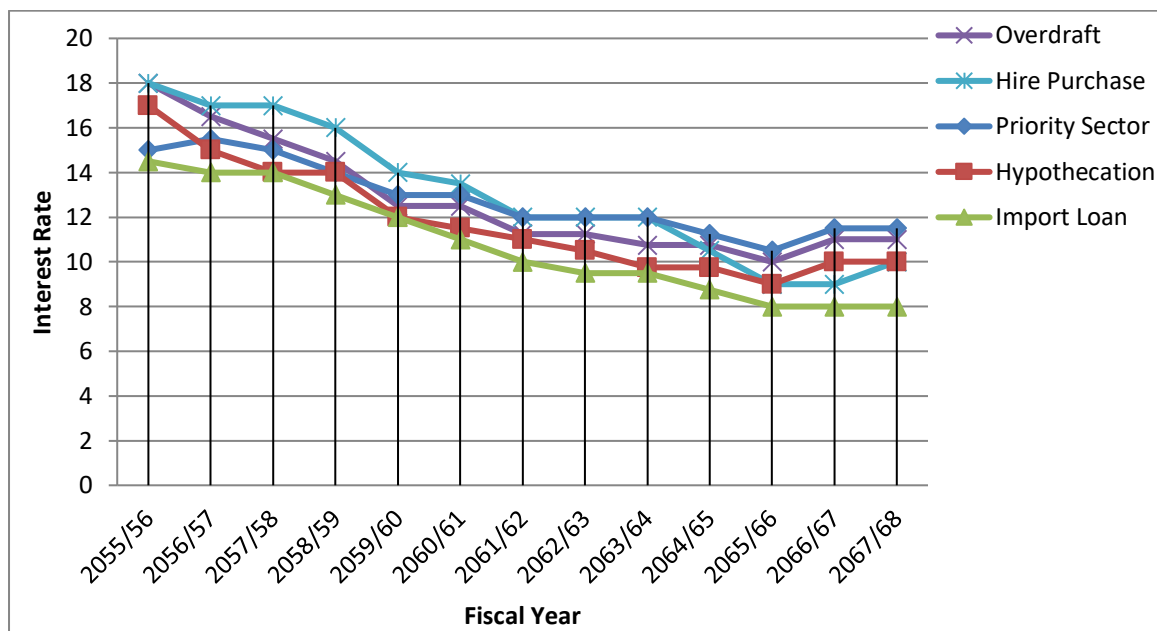
| <b>Year</b> | <b>Priority Sector</b> | <b>Hypothecation</b> | <b>Import Loan</b> | <b>Overdraft</b> | <b>Hire Purchase</b> | <b>Rs. In Million</b> |
|-------------|------------------------|----------------------|--------------------|------------------|----------------------|-----------------------|
| 2055/056    | 15.00                  | 17.00                | 14.50              | 18.00            | 18.00                | 17,540                |
| 2056/057    | 15.50                  | 15.00                | 14.00              | 16.50            | 17.00                | 20,780                |
| 2057/058    | 15.00                  | 14.00                | 14.00              | 15.50            | 17.00                | 33,438                |
| 2058/059    | 14.00                  | 14.00                | 13.00              | 14.50            | 16.00                | 27,700                |
| 2059/060    | 13.00                  | 12.00                | 12.00              | 12.50            | 14.00                | 27,375                |
| 2060/061    | 13.00                  | 11.50                | 11.00              | 12.50            | 13.50                | 27,037                |
| 2061/062    | 12.00                  | 11.00                | 10.00              | 11.25            | 12.00                | 26,608                |
| 2062/063    | 12.00                  | 10.50                | 9.50               | 11.25            | 12.00                | 25,106                |
| 2063/064    | 12.00                  | 9.75                 | 9.50               | 10.75            | 12.00                | 27,001                |
| 2064/065    | 11.25                  | 9.75                 | 8.75               | 10.75            | 10.50                | 23,103                |
| 2065/066    | 10.50                  | 9.00                 | 8.00               | 10.00            | 9.00                 | 25,395                |
| 2066/067    | 11.50                  | 10.00                | 8.00               | 11.00            | 9.00                 | 27,356                |

|          |       |       |      |       |       |        |
|----------|-------|-------|------|-------|-------|--------|
| 2067/068 | 11.50 | 10.00 | 8.00 | 11.00 | 10.00 | 30,786 |
|----------|-------|-------|------|-------|-------|--------|

Source: Annual Reports of RBB

**Figure: 4.4**

**Structure of Lending Interest Rates & Total Amount of Loan**



From the table 4.6 shows that it is seen that the lending interest rate for the year 2055/056 was 15% for priority sector, 17% for hypothecation, 14.5% for import loan, 18% for overdraft and 18% for hire purchase. The total amount of credit for that year was Rs. 17540 million. In the year 2056/057, the priority sector, interest rate increased to 15.5% whereas the hypothecation, import loan, overdraft and hire purchase interest rates got decreased to 15%, 14%, 16.5% and 17% respectively. At the same time, the total credit increased to Rs. 20780 million which was amount 18.47% more than the previous year.

In the year 2057/058, the interest rate for priority sector, hypothecation and overdraft got decreased to 15%, 14% and 15.5% respectively. But the interest rate for import loan and hire purchase remained unchanged. In this year, the total loan amount increased to Rs. 33438 million which was 60.91% more than the previous year. In the year 2058/059, the interest rate for priority sector, import loan, overdraft and hire purchase got decreased to 14%, 13%, 14.5% and 16% respectively and the interest rate for hypothecation remained unchanged at 14%.

At the same time, the total credit decreased to Rs. 27700 million which was 17.16% less than that of the previous year. In the year 2059/060, the interest rate of priority sector, hypothecation, import loan, overdraft and hire purchase all has got decreased to 13%, 12%, 12%, 12.5% and 14% respectively and the total amount of credit also got decreased to Rs. 27375 million which was 1.17% less than the previous year. In the year 2060/061, the hypothecation, import loan and hire purchase interest rate got decreased to 11.5%, 11% and 13.5% respectively. But the interest rate for priority sector and overdraft remained unchanged at 13% and 12.5% respectively. At the same time, the total amount of credit was Rs. 27037, which was 1.23% less than that of the previous year.

In the year 2061/062, the interest rate of priority sector hypothecation, import loan, overdraft and hire purchase got decreased to 12%, 11%, 10%, 11.25% and 12% respectively. The total amount of credit in this year was Rs. 26608, which was 1.59% less than the previous year. In the year 2062/063, the interest rate of hypothecation and import loan decreased to 10.5% and 9.5% respectively but the interest rate on priority sector, overdraft and hire purchase remained unchanged at 12%, 11.25% and 12% respectively. At the same time, the total amount of credit was Rs. 25106 million which was 5.64% less than that of the previous year.

In the year 2063/064, the interest rate of hypothecation and overdraft decreased to 9.75% and 10.75% respectively. But the interest rate of priority sector, import loan and hire purchase remained unchanged at 12%, 9.5% and 12% respectively. The total amount of credit in this year was Rs. 27001 million which was 7.55% more than the previous year. In the year 2064/065, the interest rate of priority sector, import loan and hire purchased got decreased to 11.25%, 8.75% and 10.5% respectively and the interest rate of hypothecation and overdraft remained unchanged at 9.75% and 10.75% respectively. At the same time, the total amount of credit was Rs. 23103 million which was 14.44% less than that of the previous year.

In the year 2065/066, the interest rate of priory sector, hypothecation, import loan, overdraft and hire purchase all got decreased to 10.5%, 9%, 8%, 10% and 9% respectively and the total amount of credit in that year was Rs. 25395 million which was 9.92% more than the previous year.



In the year 2066/067, the interest rate of import loan and hire purchase loan are remain unchanged. The interest rate of Priority sector, Hypothecation, and overdraft are increased to 11.50%, 10%, and 11% respectively. The total amount of credit in that year was Rs. 27,356 million which was 7.72% more than the previous year.

In the year 2067/068, the interest rate of Priority, Hypothecation, Import and Overdraft remain unchanged. The interest rate of hire purchase loan increased to 10%. The total amount of credit in that year was Rs. 30,786 million which was 12.54% more than the previous year i.e. 2066/067.

In general, when interest rate of loan and advances decreased, there would be more demand of loan amount or the general public would be interested to take loan from the bank. In case of rise of interest rate of loan, the general public becomes less interest to take from the bank. As a result, there becomes less demand of bank loan. But in case of RBB, it is not fully applicable. The general law that higher the interest rate lowers the credit and lower the interest, higher the credit is not being exactly application in the bank. Although the lending rates are decreasing, there is no notable increase of bank loan. It is decreasing in some of the year with the decrease in lending rate. Because of existing political instability in the country and poor security system, there is lack of investing opportunities or high risk in starting a new business. So, the general public is not interested to take bank loan in order to invest into some productive sectors. That's why; there is no demand of bank loan although the lending rates are decreasing.

Buyers affect the industry through their ability to force up or down interest rates, bargaining for higher quality, more services and play competitions against one another. Alternative suppliers are much more sufficient as there are 31 commercial banks.

#### **4.7 Trend Analysis**

Trend Analysis shows the relationship between two variables on a single period. It helps in future forecasting and planning with the help of past and present data and the factors affecting them will make possible to forecast the future magnitude. Trend

Analysis is an analysis of bank's financial figure over a period of time in order to determine the improvement, deterioration or stability of its financial situation.

Under this topic, trend analysis of deposit collection and its utilization of RBB are studied during the period of time. The objective of this topic is to forecast the total deposit and credit for the next two years.

The projections are based on the following assumptions:

1. The bank will run in the present style.
2. Nepal Rastra Bank and the Government of Nepal will not make any amendments in the guidelines for the operation of commercial banks.
3. Other all the things also remain constant.

Simple linear trend line of the form ' $y = a + bx$ ' is used where ' $x$ ' and ' $y$ ' are considering variables. Here, ' $x$ ' denotes time, ' $b$ ' measures the increase and decrease in the value of ' $y$ ' due to unit change in ' $x$ ' and ' $y$ ' denotes the total deposit and the total credit. Here, the method of least square has been used for the analysis of total deposit and total credit of RBB.

**4.7.1 Trend Analysis of Total Deposit and Total Credit:-** Under this topic, trend values of the total deposit and total credit of RBB, for the period of study has been calculated and forecasted for the next 5 years, from 2068/69 and 2072/67. The following table presents the trend value of deposit and Credit.

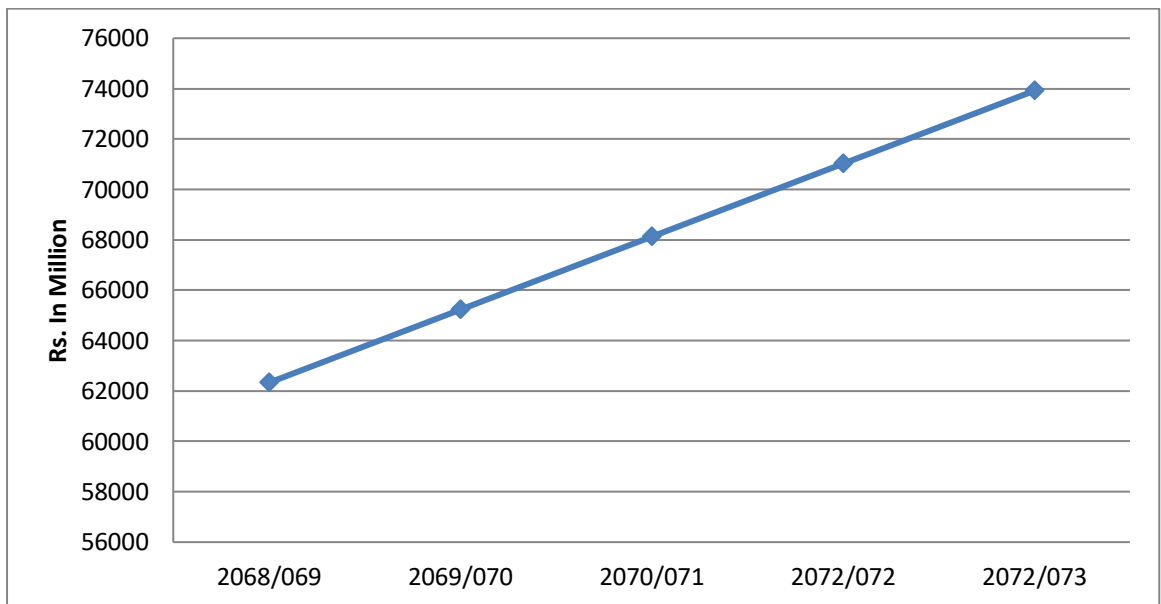
**Table: 4.7**  
**Forecasted Trend Value of Deposit & Credit**

| Year     | X  | Trend Line & Trend Value                |                                          |
|----------|----|-----------------------------------------|------------------------------------------|
|          |    | Deposit ( $y = 42050.8 + 2896.58X$ )    | Credit ( $y = 26094.23 + 350.08X$ )      |
| 2068/069 | 7  | $42050.8 + 2896.58 \times 7 = 62326.86$ | $26094.23 + 350.08 \times 7 = 28544.79$  |
| 2069/070 | 8  | $42050.8 + 2896.58 \times 8 = 65223.44$ | $26094.23 + 350.08 \times 8 = 28894.87$  |
| 2070/071 | 9  | $42050.8 + 2896.58 \times 9 = 68120.02$ | $26094.23 + 350.08 \times 9 = 29244.95$  |
| 2071/072 | 10 | $42050.8 + 2896.58 \times 10 = 71016.6$ | $26094.23 + 350.08 \times 10 = 29595.03$ |

|          |    |                                     |                                     |
|----------|----|-------------------------------------|-------------------------------------|
| 2072/073 | 11 | $42050.8+2896.58\times 11=73913.18$ | $26094.23+350.08\times 11=29945.11$ |
|----------|----|-------------------------------------|-------------------------------------|

Source: Appendix IV & V

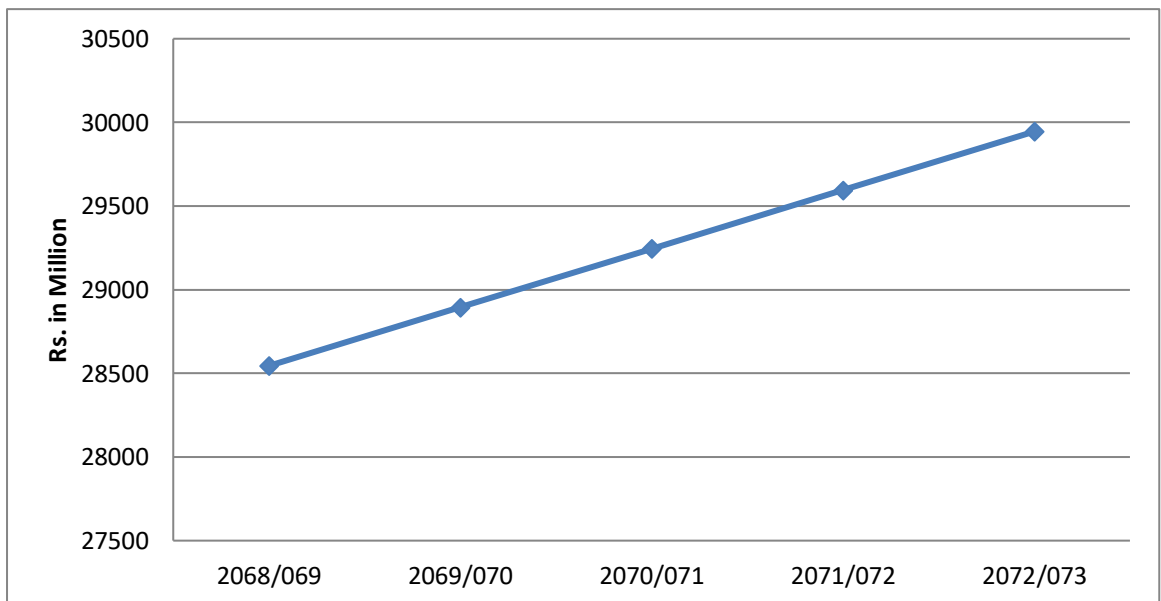
**Figure: 4.5**  
**Forecasted Trend Line of Total Deposit**



Here, Table 4.7 shows the increasing trend of total deposit and credit of RBB. 'Y' has shown the trend value of total deposit. Since, the calculated value of 'b' is positive, it is found that the bank's deposit is increasing with time. It shows that the deposit increasing by Rs. 2896.58 million every year. On the basis of this calculation, it can be forecasted that the bank's total deposit will become Rs. 62326.86 million in the year 2068/69 and it will become Rs. 73913.18 million in the year 2072/073.

Since, the calculated value of ‘b’ is positive, it is found that the banks credit is increasing with time. It shows that the credit increasing by Rs. 350.08 million every year. On the basis of this calculation, it can be forecasted that the banks total credit will become Rs. 28544.79 million in the year 2068/69 and it will become Rs. 29945.11million in the year 2072/073.It is shows in the following figure.

**Figure: 4.6**  
**Forecasted Trend Line of Total Credit**



#### 4.8 Coefficient of Correlation Analysis

Coefficient of correlation is used to measure the relationship between two variables. It helps in determining the extent to which the two variables are correlated but it doesn't tell about the cause and effect of the relationship. Karl Pearson's coefficient of correlation is used to find out the relationship. Correlation analysis is a measure of association that is based on the numerical values of two variables. It is used in this study to determine whether:

- The correlation is significant or insignificant
- The correlation is positive or negative or non-correlated.

The statistical tool, correlation analysis has been used in this study to identify the relationship between variables whether the relationship is significant or not.

For the purpose of decision making, interpretations are based on following facts:

1. When  $r = 0$ , there is no relationship between the variables
2. When  $r < 0$ , there is negative relationship between the variables
3. When  $r > 0$ , there is positive relationship between the variables
4. When  $r = +1$ , the relationship is perfectly positive
5. When  $r = -1$ , the relationship is perfectly negative
6. When 'r' lies in between 0.7 to 0.999, there is high degree of positive correlation
7. When 'r' lies in between -0.7 to -0.999, there is high degree of negative correlation.

Note that the numerical measurement of relationship between the two variables is denoted by the symbol 'r' whose value ranges from -1 to +1 i.e.  $-1 \leq r \leq +1$ .

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

**Table: 4.8**  
**Correlation Coefficient between Total Deposit & Total Credit**

| Name | r      | r <sup>2</sup> | t-value    |           | Result        |
|------|--------|----------------|------------|-----------|---------------|
|      |        |                | Calculated | Tabulated |               |
| RBB  | 0.5166 | 0.2668         | 2.002      | 2.201     | Insignificant |

*Source: Appendix I*

The table 4.8 describes the relationship between total deposit and total credit during the period of study. The coefficient of correlation (r) between total deposit and total

credit is 0.5166. This figure shows the positive association between deposit and credit. It means deposit and credit both move towards same direction.

The coefficient of determination ( $r^2$ ) is 0.2668. It shows that 26.68% of the variation in the dependent variable (i.e. total credit) has been explained by the independent variable (i.e. total deposit).

The calculated value of 't' is less than the tabulated value of 't' (i.e.  $2.002 < 2.201$ ) therefore true value of 'r' is insignificant. It reveals that there is insignificant relationship between the deposit collection and credit extension.

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

#### **4.8.2 Correlation Coefficient between Interest Rate and Saving Deposit:-**

Correlation coefficient between interest rate and saving deposit measures the degree of relationship between them. For correlation analysis, interest rate is taken as independent variable (X) whereas saving deposit is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether interest rate is significantly correlated with saving deposit or not.

**Table: 4.9**

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

| Name | r       | $r^2$  | t-value    |           | Result        |
|------|---------|--------|------------|-----------|---------------|
|      |         |        | Calculated | Tabulated |               |
| RBB  | -0.8727 | 0.7617 | 2.18       | 2.201     | Insignificant |

*Source: Appendix II*

Since the calculated value of correlation coefficient (r) between interest rate and saving deposit is -0.8727, there is high degree of negative correlation between these two variables. Again, coefficient of determination ( $r^2$ ) is 0.7617. It indicates that

76.17% of the variation in the saving deposit (dependent variable) has been explained by interest rate (independent variable).

The calculated value of 't' is greater than the tabulated value of 't' (i.e.  $2.18 < 2.201$ ) therefore true value of 'r' is insignificant. It can be concluded that the relation between the interest rate and saving deposit is insignificant or there is high degree of negative association between these two variables.

**4.8.3 Correlation Coefficient between Interest Rate & Fixed Deposit:** - Correlation coefficient between interest rate and fixed deposit measures the degree of relationship between the interest rate and fixed deposit. Here, interest rate is independent variable (X) and fixed deposit is dependent variable (Y). The main objective of the analysis of 'r' between interest rate and fixed deposit is to justify whether interest rate is significantly correlated with fixed deposit or not.

**Table: 4.10**  
**Correlation Coefficient between Interest Rate & Fixed Deposit**

| Name | r      | r <sup>2</sup> | t-value    |           | Remarks     |
|------|--------|----------------|------------|-----------|-------------|
|      |        |                | Calculated | Tabulated |             |
| RBB  | 0.5103 | 0.2604         | 2.287      | 2.201     | Significant |

*Source: Appendix III*

The table 4.10 shows that the correlation coefficient (r) between interest rate (independent variable) and fixed deposit (dependent variable) of RBB is 0.5103, which indicates the positive correlation between these two variables. On the other hand, the value of coefficient of determination (r<sup>2</sup>) is 0.2604. It indicates that 26.04% of variation in the dependent variable (Y) has been explained by the independent variable (X).

The calculated value of 't' is greater than the tabulated value of 't' (i.e.  $2.287 > 2.201$ ) therefore true value of 'r' is insignificant i.e. there is significant relation between the fixed interest and fixed deposit.

## 4.9 Major Findings

For the study of Deposit Mobilization of RBB, the thirteen years data have been considered. The analysis has been done according to the nature and quality of the available data. Some simple financial as well as statistical tools have been used to reveal the entire position of deposit and credit of RBB.

- In the analysis of deposit position of RBB, it is observed that deposit position percentage change is normal except in the financial year 2060/061. In that year, the percentage change was in negative i.e. the total deposit was decreased by 4.37% in that year.
- The analysis revealed the poor condition of the bank in the credit position. The percentage change in the credit position was in fluctuating trend during the period of study. In the year 2064/065, the total credit was decreased by 14.44% where as in 2065/066, the total credit increased by 9.92%. Similarly the total credit was increased by 12.54% in the year 2067/068.
- The analysis revealed that the bank's position towards the current deposit account is not satisfactory. The rate of increment is not uniform during the period study. Even the percentage change was negative in the year 2057/058 and 2060/061 i.e. -0.83% and -6.41% respectively. The highest percentage change was in the year of 2067/068. In this year the current deposit was increased by 37.26%.
- In the analysis of saving deposit, the trend was increasing throughout the period of study except in one year i.e. in 2060/061. But the increasing rate was not uniform. The rate was highest in the year 2066/067 i.e. 22.19% and lowest in the year 2060/061 i.e. -0.09%.
- In case of percentage change in fixed deposit, the percentage was increasing from the beginning of the period of study till 2058/059. But from onward till the end of the period of study, the percentage was decreasing. The highest percentage change was in 2057/058 i.e. 28.39% and the negative highest percentage change was -35.98% in 2066/067. The deposit was less increasing and more decreasing. So, the banks attraction towards fixed deposit was seemed unsatisfactory.
- The growth ratio of the total deposit of RBB for the given period of study was found as 9.42%. It means the bank is able to maintain 9.42% growth rate in the



total deposit. The ratio measures the capacity of the bank to maintain the percentage of increase of total deposit. Since the growth ratio of the total deposit is 9.42%. The must improve its deposit collection in higher growth rate.

- The growth ratio of the total credit of RBB for the given period of study was found as 4.60% only. The bank seems in weak condition to increase total credit growth rate. Now, the bank must plan to increase the efficiency of credit related section of the bank.
- The CD Ratio shows the better utilization of a bank deposit in loan and advances. But unfortunately, the ratio seems to be in decreasing trend in RBB. Decreasing credit deposit ratio indicates the imbalance of bank and its available resource mobilization. Due to the various internal and external factors, the bank is not making any open investment. So, the collected deposits are unused and idle in the bank which has created the wider gap between the deposits and credit. As the result, there is piling up of idle deposits with the bank.
- The interest rate on deposits and credits are slightly changed in a regular interval. Sometimes, the rates are increased while sometimes they are decreased also. The changes in interest rates are made to maintain the balance in interest income and interest expenses.
- The millions of depositors are attracted towards the saving deposit of RBB. However, the interest rate on saving deposits is decreasing each year. It indicates that there is very lower impact of interest rate on its saving deposit. There are very few investments in industries and business activities at present. It is also one of the most important factors of increasing trend of saving deposit.
- In case of fixed deposit, the amount was increased till 2058/059. But from onward, the amount started to be decreased till the end of the period of study. As well as deposited amount, the interest rate of fixed deposit was also in decreasing trend. So, it can be said that there is no strong impact of interest rate on the fixed deposit amount. A reduction in interest rate or new services offered to the market is expected to have a noticeable effect on its competitors.

- The impact of lending rates on loan amount is not satisfactory. Even though most of the lending rates are decreasing with slight increase in the credits, but in most of the years, the total credits were decreased with decrease in the rate of interest. There are 31 commercial banks currently operating. The size of these banks varies vastly and so does their ownership and management. However, there is an eagle view monitoring in the competitor's activities. The economy is in recession, as a result investors and entrepreneurs are unwilling to undertake new projects. In addition, some existing businesses are shutting down. As a result, the market for lending is deteriorating. Buyers affect the industry through their ability to force up/down interest rates, bargaining for higher quality or more services and play competitors against each other.
- The total deposit of RBB has been found in increasing trend. The total deposit of RBB will become Rs. 62,326.86 million in the year 2067/68 and it will become Rs. 65,223.44 million in the year 2068/69, if all the other factors remain constant.
- The total credit of RBB also has been found in increasing trend. The total credit of RBB will become Rs. 28,544.79 million in 2067/68 and it will become Rs. 28,894.87 million in the year 2068/69, if all the other factors remain constant.
- The coefficient of correlation ( $r$ ) between total deposit and total credit is 0.5166. The coefficient of determination ( $r^2$ ) is 0.2668. It shows that 26.68% of the variation in the dependent variable (i.e. total credit) has been explained by the independent variable (i.e. total deposit). The calculated value of 't' is less than the tabulated value of 't' (i.e.  $2.002 < 2.201$ ) therefore true value of 'r' is insignificant.
- The calculated value of correlation coefficient ( $r$ ) between interest rate and saving deposit is -0.8727, there is high degree of negative correlation between these two variables. Again, coefficient of determination ( $r^2$ ) is 0.7617. It indicates that 76.17% of the variation in the saving deposit (dependent variable) has been explained by interest rate (independent variable). The calculated value of 't' is greater than the tabulated value of 't' (i.e.  $2.18 < 2.201$ ) therefore true value of 'r' is insignificant.

- The correlation coefficient ( $r$ ) between interest rate (independent variable) and fixed deposit (dependent variable) of RBB is 0.5103; the value of coefficient of determination ( $r^2$ ) is 0.2604. It indicates that 26.04% of variation in the dependent variable (Y) has been explained by the independent variable (X).

## **CHAPTER-V**

### **SUMMARY, CONCLUSION & RECOMMENDATIONS**

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

#### **5.1 Summary**

The problem of economic development of a developing country is a problem of real growth. Only considering real factor can't solve this problem, because, nowadays financial and monitoring factors have a tremendous effect on the growth process. For the development of the country's economy, sound and co-ordinate fiscal and monetary policy plays an important role even in underdeveloped country like Nepal. For this, the role of commercial banks becomes crucial in the task of capital formation, which is, no doubt, a key variable in the economic development of a country. Scattered resources hold no meaning unless and until they are mobilize and utilize efficiently in some productive sectors.

Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investments in order to aid industry,

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

Besides this, to fulfill the primary objectives, the following secondary objectives also have been considered:

- To examine and analyze different types of deposit schemes offered by RBB.
- To explore the trend of deposit and lending of RBB.
- To evaluate the interest rate on deposit and lending.
- To analyze the relationship between deposit and loan of RBB.

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

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

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

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

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

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

## **5.2 Conclusion**

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

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

### **5.3 Recommendations**

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

- The bank should initiate a good step for maintaining the increasing trend of deposit collection as well as mobilization of it. The bank should launch several customer oriented programs to raise the deposits in satisfied rate. For this purpose, the foremost step to be take is the bank can increase the interest rate on deposit and further it can launch several latest technologies in the banking field like Credit Cards, e-banking etc.
- The bank should increase the total deposit in further more rate than that of current to maintain its current growth rate of 9.42%. For this purpose, the bank should be committed towards the satisfaction of the valued customers by providing modern banking facilities. To increase the credit distribution in satisfied rate, the bank should launch various credit programs under the priority sector credit programs.
- To overcome the problem of decreasing CD Ratio, the bank should focus on promoting short term loans and trade finance. Interest rate cuts are seen as possible solutions in light of severe competition and reduction in deposit interest rates.
- The deposit collected under fixed deposit account was deceasing in the period of study. To increase the deposit collection, the interest rates of the account should be increased with time interval. Further the interest rate on saving

deposit account also should be increased to obtain even more increment in the deposit collection. The credit of the bank should have been increased with the decrease in interest rate. But it was not happening. To increase the credit, the bank should be concentrated towards the priority sectors.

- The trend of deposit and credit was found to be in increasing trend. But the rate was not satisfying. To increase the deposit and credit in even more rate, the banks should use the computerized banking system in all the branches with ABBS facility.
- The coefficient of correlation between total deposit and total credit, saving interest & saving deposit and fixed interest & fixed deposit should be positive. But the correlation coefficient between saving interest and saving deposit was found to be negative. It is due to the existing political instability in the country and poor security system. To improve this condition, the political stability and proper security system should have to be ensured which is beyond the control of RBB.

