

# 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.

The growth of banking in Nepal is not so long in comparison with other developing countries. Nepal had to wait for a long time to come to the present banking system. The development of any countries cannot be image without economic activities. The development of banking system is one of the grounds for economic development. So we should take a bank as strong means for the economic development. The development of bank is interwoven with the development of a person, a society and a nation. It is impossible to fulfill the needs without bank whether it is inside the nation or foreign country whether it is individual development or business and whether it is the people or the government. So, to solve the problems relating to economic development, developing of banking system is necessary.

Like goldsmith, merchants and money lenders were the ancient bankers of Nepal. Tejarath Adda established during the tenure of the prime minister Ranodip Sing (B.S

1933) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposit from the public but give loans to employees and public against the bullion.

Banking in modern sense started with the inception of Nepal Bank Limited (NBL) on B.S. 1994-7-30 NBL had a herculean responsibility of attracting people towards banking sector from predominant money-lenders net and of expanding banking service. Being a commercial bank, it was nature that NBL paid more attention to profit generating business and preferred opening branch at urban centers (Economy Survey, 2010/11).

The commercial bank had to carry the functions of all the type of financial institution such as to improve people's economic welfare and facility to provide loan to offer banking services to the people and country. Hence, industrial development center (IDC) was set up in 2013 for industrial development, in 2016 IDC was converted to Nepal Industrial Development Corporation (NIDC), similarly Agricultural Development Bank (ADB) was established in B.S. 2024-10-07 to provide finance for agricultural products so that agricultural productivity could be enhance by introducing modern agricultural techniques. Moreover, security exchange center was established in 1976 to enhance capital market activities. Securities exchange center was renamed Nepal Stock Exchange (NEPSE) in 1933.

With the establishment of RBB and ADB banking services spread to both urban & rural areas it help the common people to reduce their burden of paying higher rate of interest to money lenders absolve them from kowtowing before money lenders. It is natural expectation of customer keep on increasing. Once they got banking services they were expecting imprudence and efficiency. However, excess political & bureaucratic interference & absence of modern managerial concept in these institutions was hurdle in this regard. Banking services to the satisfaction of customer was a far cry. The inception of Nepal Arab bank Limited (Renamed as Nabil Bank Limited) in B.S. 2041-03-29 as a first joint venture bank provide to be milestone in the history of banking when ray give a new ray of hope to the sluggish financial sector.

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 the 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.

## **1.2 Statement of the Problem**

As we know that the main objective of every business organization like bank is to maximize the profit. Deposit mobilization is the key factor to attain this objective. In the current scenario there is competition among different bank so there is difficult to collect the deposit. So bank should make a effective plan to compete in the market. Mobilizing deposits is crucial in many developing countries like Nepal. Domestic funds provide a cheap and reliable source of funds for development, which is of great value for developing countries, especially when the economy has difficulty raising capital in international markets. Yet in many developing countries, there is a considerable amount of savings that are not intermediated through the formal sector. In particular, there exists a significant savings potential in the rural sector in many developing countries. One of the reasons for lack of saving mobilization is that banks simply do not cater to significant parts of households. Indeed in many rural areas banks are and even in urban and semi-urban areas banks do not reach out to a significant proportion of the population.

Nepalese commercial banks have not formulated their deposits/investment policy in an organized manner. They mainly really upon the instructions and guidelines of NRB. They don't have clear view toward deposit and investment policies. Further more the implementation of policy is not in an effective way. Thus the present study will make a modest attempt to analyze in deposit mobilization of EBL and NIC. The problems specially related to deposit function of the commercial bank like EBL and NIC and other commercial banks of Nepal have been presented below.

- Is procedure of loan taking is very lengthy in commercial banks?
- Is the Loan facility is given by commercial banks are sufficient?
- Are the credit policy provide is by commercial banks sufficient?
- What is the relationship between deposit and loans and advances?
- What is the effectiveness of deposit mobilization of commercial banks?

### **1.3 Objectives of the Study**

The primary objective of the study is to develop an overall strategy for managing the deposit of sample banks. To fulfill these primary objectives, the following secondary objectives also had been considered:

- To examine and analyze different types of deposit schemes offered by sample banks.
- To evaluate the trend of deposit and Credit of sample banks.
- To evaluate the credit position of sample banks.
- To analyze the relationship between deposit and credit of sample banks.

### **1.4 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 techsample financial 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 commercial banks, so it helps to reveal the financial position of banks 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 banks 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.

## **1.5 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 2064/65 to 2068/69.
- This study is concerned only on deposit collection and its utilization by sample banks.
- 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.

## **1.6 Organization of the Study**

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

### **Chapter-I**

The first chapter covers the Introduction such as Background of the Study, Statement of Problems, Objectives of the Study, Significance of the Study, Limitation of the Study and Organization of the Study.

### **Chapter-II**

The second chapter deals about the Review of Literature which includes Conceptual Review, Review of Previous Thesis and Basis Feature of this Research.

### **Chapter-III**

The third chapter includes Research Methodology with Research Design, Sources of Data, Population and Sample, Data Collection Method and Data Analysis Tools.

#### **Chapter-IV**

The fourth chapter Data Presentation and Analysis of data supporting with table, figure, diagram & draw major Findings.

#### **Chapter-V**

This chapter includes the Summary, Conclusion and Recommendations of the study and at the last bibliography and appendix are also included.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

This chapter highlights and deals with the literature relevant to this study. The study is based on past knowledge. The previous studies can not be ignored because they provide the foundation to the present study. In other word, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. It includes review of supportive text, review of legislation related to commercial banks and review of thesis. Literature Review is basically a “Stock Taking” of available literature in one's field of research. The literature survey thus provides us with the knowledge of the status of their field of research. Therefore, this chapter has its own important in the study (Pant & Wolf, 2000:30).

Review of Literature means the study of relevant topics in the related field of research or reviewing related research studies and findings such that all past studies, theirs conclusion and deficiencies may be known and further research can be done. In the course of research review of the existing literature would helps to check the chance of duplication in the present study. The review of literature is divided into two headings.

- Conceptual Review
- Review of related Studies

#### **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 techsample financial 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. Principally, commercial banks accept deposits and provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy. A commercial bank as one which exchange money, deposits money, accepts deposits, gratt loans and performs commercial banking functions.

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. 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, 2001:24).



From the above many definition, 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 Evolution of Banking System in Nepal**

There are several types of banks but among them commercial banks play significant contribution in the financial system of the country. They pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from public on condition that they are repaid on demand or on short notice. Their business is confined to financing the short-term and medium term needs of trade and industry such as working capital financing.

Commercial Bank Act, 2031 B.S. (1974 A.D.) of Nepal has defined the commercial banks as an organization, which exchanges money, accepts, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose. It is the fact that financial sector plays a vital role for the economic development of a country. Even before the establishment of a banking system in Nepal, financial transactions were in practice as undertaken by some moneylenders like sahu-mahajans, zamindars, relatives, friends, and few informal organizations limited to ethsample finance group such as guthi. The borrowing from the other and the informal organization was limited and based on personal understanding. At that time people deposit their gold, silver and valuable goods for the sake of security. Thus, the private moneylenders can be taken as forerunner of the concept of financial institution.

However, the private money lenders supported the economic development of a country, the transactions undertaken by them was totally based on their personal understanding. No legal restriction was against them and their monopolies in transactions were the reasons for covering the interest in personal understandings and exploiting the people. Thus, it was then realized the need to establish financial intermediaries in supporting the economic development of a country.

Nepal has been ruled over by many rulers like Kirati, Lichchhavi, Malla, Ranas, and Shahs. Mostly Kirati, Lichchhavi and Malla regimes, who were concerned with the construction of temples, pati-pouwa, chautaris, etc. At that period neither the people nor the government needed to think about the economic development of the country. According to ancient Vanshawaliin fourteenth century, the ruler of the Kathmandu Jayasthiti Malla segregated the local domiciles into 64 different classes according to profession they had undertaken. Tankadhari was one of those classes who used to deal in coins and precious metals such as gold. These Tankadharis were said to have carried out the borrowing and lending of money (coins). Hence, Tankadharis can be regarded as the traditional bankers of Nepal.

After long time, during the Rana regime, only handfuls prime minister thought about the economic development of the country. They established some offices in 1993 B.S. (1936A.D.) Tejarath Addawas established during the tenure of Prime Minister Ranoddip Singh Rana as a first institutionalized credit house. Tejarath Adda provided loans under the security of gold and silver to the government employees and public. The government established its various branches and sub-branches at different places of the country for the sake of benefits of people. In the overall development of the banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution and for a quite long time it rendered a good service to the government employees as well as to the general public. The government also implemented the rules against the vast interest rate taken by moneylenders. Thus, the government financial institution occupies an important role in the banking history of Nepal. To fulfill the growing need of economy in Nepal, banking activities were performed only after the establishment of Nepal Bank Limited in 1994 B.S. (1937A.D.) as the first commercial bank in Nepal. This bank was established under the Nepal Bank Act 1994 B.S.

At beginning, 49% of the ownership belongs to the promoters as well as general public and remaining belongs to government. The incorporation of Nepal Bank Ltd. is the real starting of the banking institution in Nepal? The bank started the act of consolidating the scattered capital since its establishment in order to mobilize it in productive sector. It developed systematic tradition in culture of modern banking system in Nepal. Such system could be able to establish a strong base for the enlistment of national economy. Besides, it also acted as central bank for more than three decades.

Nepal Rastra Bank was established in Baisakh 14, 2013 B.S. (26 April 1956 A.D.) under Nepal Rastra Bank Act, 2012 B.S. (1955 A.D.), the central bank of Nepal. It is totally owned by government. NRB is heavily assisting for the development of the whole economy. It is giving timely directives to all financial institutions operating and conducting in all over the country. After a long period, the second commercial bank namely Rastriya Banijya Bank (RBB) has been established in 2022 B.S. (1965A.D.) with cent percent government ownership. This bank has been established under the Rastriya Banijya Bank Act 2021 B.S. (1964 A.D.) Both Nepal Bank Limited. (NBL) and Rastriya Banijya Bank (RBB) have made a remarkable contribution by providing reliable banking services to the Nepalese people. Its contribution is well noted in terms of capital formation to the small dispersed saving into meaningful capital investment in order to flourish industry, agriculture, and commercial sector in the country.

The government introduced Commercial Bank Act in Nepal in 2033 B.S. (1976A.D.) to cover the vast field of financial sector. This act has helped to emerge number of commercial bank with a view to maintain economic interest in comfort of the public in general facilitated to provide loan for agriculture, industry, trade and make a available banking services to the country and people.

Among vacuum in the banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S. (1982 A.D.) and decided to allow foreign banks to operate their activities in Nepal in joint venture model. Joint Venture Banks can be defined as an association of two or more parties having common objectives and goals so as to get maximum satisfaction. Basically at that time, it was envisioned that joint venture banks (JVBs) would support the country in various ways.

In Nepalese context the main purpose of joint venture is top developing economic forces in order to achieve distinguished result, which the partners separately could not achieve. Nowadays, joint venture banks (JVBS) are playing dynamic and vital role in economic development of the country. The EBL Bank Ltd. is the first joint venture bank established in 2041 B.S. (1984 A.D.) and started its operation with modern banking services. In the same way, Nepal Indosuez Bank (currently Nepal Investment Bank), the second joint venture bank established in 2042 B.S. (1985 A.D.) with an objective to encourage efficient banking services and facilities. Likewise Standard Chartered Bank is operated in 2044 B.S. (1987 A.D.).

With the satisfactory result of joint venture banks, Nepalese promoters are highly encouraged and as a result, commercial banks are introduced with cent percent domestic investment. At present, Nepal Industrial and Commercial Bank (SAMPLE FINANCE), Lumbini Bank Ltd., Machhapuchhre Bank Ltd., Bank of Kathmandu, Nepal Credit and Commerce Bank Ltd., Laxmi Bank Ltd., Siddhartha Bank Ltd., Kumari Bank Ltd. came into operation with cent percent domestic investment by Nepalese promoters which are the plus point of development of banking sector of Nepal. Now, there is a strong competition between commercial bank for the existence so that the growing needs of the customers can easily achieve (Gupta, 1984:17-19).

### **2.1.3 Function of Commercial Banks**

Banks can be defined according to the functions they perform. A bank is established with the prime objective of profit maximization. To achieve this, the bank carries out functional activities, principally, commercial banks accepts deposits, provide loan, primarily to business firms thereby facilitating the transfer of funds in the economy. Although, in the yester years banks were viewed as acceptor of deposits then provider of loan, but modern commercial banks have to perform overall development of trade, commerce, industry, agriculture including supports for priority and deprived sectors. The growing bank needs and habits of people and competitive environment has made the banking sector challenging and their operation cannot be underemphasized in present context of market globalization. Hence, a bank is a commercial institution licensed as a taker of deposits, concerned mainly with the making and receiving payments on behalf of their customers, accepting deposits, creating money and making short-term loans to private individuals, companies and other organization.

Although profit maximization is a major objective of commercial bank, to achieve this objective commercial bank performs various functions under the mandatory rules and regulations and directives of NRB and the Banking and financial institution act Act 2063 B.S.

**1. Accepting Deposits:** - Accepting a deposit is the most important function of commercial banks. Commercial banks collect money from those who want to deposit in different types of accounts such as:

- Fixed Deposit Account
- Current Deposit Account
- Saving Account

**2. Advancing of Loans:** - Commercial banks provide the loans required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In this way bank creates credit facilities. It provides loans from various procedures in different form such as:

- Overdraft
- Cash Credit
- Direct loan with collateral
- Discounting of bills of exchange
- Loans of money at call and short notice

**3. General Utility Functions:** - Commercial banks also perform general utility functions such as:

- Issuing of letter of credit to its customers.
- Issuing of bank drafts and travelers cheque etc., for transfer of funds from one place to another.

- Dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange.
- Serving as referred to the financial standing and credit worthiness of its customers.
- Underwriting loans to be raised by public bodies and corporations. Providing safety vaults of lockers for the safe custody of valuables and securities of the customers.
- Acting as a trustee and executing the will of the deceased.
- Remittance of money

**4. Agency Function:** - Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as:

- Collection of customer's money from other banks
- Receipt and payment of dividend, interest.
- Security brokerage service.
- Financial advisory service.
- To underwrite the government and private securities

#### **2.1.4 Role of Commercial Banks**

The role of commercial bank in the economy is obviously a prime prerequisite for the formulation of the bank policy as the role shape, the nature and character of the bank. The deposit minded banker may under emphasize safety. Often commercial bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks customer who seldom borrow from the bank an impartment function may be the acceptance and safe keeping of deposits. But those customers who often take loans from the bank, the credit creation function may be the most important. The commercial bank is different from the other

banks especially from central bank. In appearance the main distinction between central bank and a commercial bank is that now- a- days the central bank does not do much banking, but the more fundamental difference is one of aim. The main objective of the commercial bank is to make profit where as the central bank thinks of the effects of its operations on the working of the economic system. The commercial bank has the shareholders and is expected to do the best it can for them but the government by contrast usually owns the central bank. The commercial bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly impersonal and are confined to what is necessary for influencing the country's financial business in the directions citrated by economic policy (Baxley, 1987:17-18).

For all countries of the world and more so far the developing countries like Nepal, fast economic development is one of the most important aspects of the developmental activities. However, it is obvious that unless the development of the most important sector like agriculture, industry, and commerce are achieved, envenomed development is impossible. For all the development, the regular supply of financial resources is a prerequisite. Finance is thus like fuel for providing energy to move the tempo of economic development and financial institution naturally, serve as reservoir for supplying and controlling the stream of that fuel i.e. finance. The commercial banks which are the financial institutions dealing with activities of agriculture industry, trade and commerce play the most important role for the business activities of the world. The objectives of the commercial banks are to mobilize the idle resources in productive uses collecting them from scattered and various sources. Its role in economic development is thus immense in order to bring out greater mobility of resources to meet the ever increasing needs of financing or the various economic activities.

Presently, the contribution of commercial banks and joint venture banks in agriculture sectors has been expanding. It provides the credit facilities for the development of agriculture on cases where Agricultural Development Banks and Cooperative Societies don't enter into the field. The agriculture sector needs more and more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require obviously more investment. Thus role of commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal. The economy of our country is dominated by agricultural sector.

This could be exemplified from the figures that about 73 percent of the total population is engaged on agriculture and about 35 percent of the national income comes from the agriculture. Similarly 51 percent of the export trade is in agricultural product. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture. This is very clear that in such a country the financial help to the agriculture sector is most urgent and indispensable for strengthening the base of national economic structure (Nepal Rastra Bank Statistics 2068, July).

The role of commercial bank is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more and more upon the supply of capital by the banks. It wouldn't be exaggeration to state that commercial banks are mainly responsible for whatever the industrial development has been achieved by Nepal. However many other financial institutions like ADB/N, NIDC have already been established for the development of agriculture and industrial sector of the country. The commercial banks are also continuously participating in these activities. Being a mountainous country, many places are very remote and sometimes it requires many weeks to approach some of the places. Due to lack of transport and commusample financeation facilities and other geographical causes, the country has been still facing the problem of imbalances economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial banks have their appropriate role to play here by expanding their branches in the different Hilly and Tarai regions available loan to the local people. In industrial sector, commercial banks are providing the necessary financial help for the industrial establishment in the country. They provide short and medium term loan to industries to purchase machineries, tools, raw materials etc. and to introduce new and developed techniques of production.

So the role of commercial banks is extremely important for the development of industries, trade commerce, agriculture, hotel, transport etc. of the country. In fact, no nation can develop itself without the development of these banks. It is not only true in the capitalist countries but also true in the socialist countries and mixed economic countries like Nepal as well (Baxley, 1987:25).



### **2.1.5 Concept of Deposit**

Deposit is the sum of money lodged with a bank, discount house or other financial institution. Deposit is nothing more than the assets of an individual which is given to the bank for safe-keeping with an obligation to get something (interest) from it. To a bank these deposits are liabilities. Banking and financial institutions act 2063 defines “Deposits” as the amount deposited in a current, savings or fixed accounts of a bank or financial institution. The deposits are subject to withdrawals by means of cheque on a short notice by customers. There are several restrictions on these deposits, regarding the amount of deposit, number of withdrawal etc. These are considered more as investments and hence they earn some interest. The rate of interest varies depending on the nature of the deposits. The bank attracts deposits from customers by offering different rates of interest and different kinds of facilities. Though the bank plays an important role in influencing the customer to save and open deposit accounts with it, it is ultimately the customer who decides whether s/he should deposit his surplus funds in current deposit a/c, saving deposits or fixed/time deposit a/c. Bank deposits arise in two ways. When the banker receives cash, it credits the customer’s account, it is known as a primary or a simple deposit. People deposit cash in the banking system and thereby convert one form of money, cash, into another form, bank money. They prefer to keep their money in deposit accounts and issue cheques against them to their creditors. Deposits also arise when customers are granted accommodation in the form of loans. When a bank grants a loan to a customer it doesn’t usually pay cash but simply credits the customers account with the amount of loan. Of course, there is nothing that prevents the borrower from withdrawing the entire amount of borrowing in cash but quite often s/he retains the amount with the bank as deposit (Bhandari, 2003:73).

### **2.1.6 Types of Deposit**

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

**1. Current Deposit:** - A current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand. The account never becomes time barred, because the limitation

does not run until a demand is made by the customer on the bank for the payment of deposit. These accounts are generally opened by business houses, public institutions, corporate bodies and other organization whose banking transactions are numerous and frequent. As these deposits are payable on demand, banker is obliged to keep larger cash reserves than are needed in the case of fixed and savings deposits. This type of account is just a facility offered by the bank to its customers. So such deposit doesn't yield any interest return. The deposit in which an amount is immediately paid at the time of any account holder's demand is called demand deposit Its transaction is continual & a very small portion of such deposit can be invested in the productive sector. Though the bank cannot gain significant profit by investing it in new sector, this is one of the facilities given to the customer. Therefore, the bank doesn't give interest on this account. For this study this types of deposit is not suitable (Bhandari, 2003:79).

**2. Saving Deposit:** - According to Banking and Financial Institutions Act 2063 saving account means "An account of amounts deposited in a bank for savings purposes." The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule. Similarly there is also divergence as to how much amount of money can be withdrawn. But if the customers want to withdraw more money from the bank which is not allowed by it but if s/he gives pre-information to the banks, s/he can withdraw more money. The bank fixes the minimum and maximum amount of withdraw able through a cheque from this deposit. If the bank goes into liquidation, priority is given to the saving deposit than current and fixed deposits while repaying the liabilities.

**3. Fixed Deposit:** - Fixed deposits constitute a very important resource for banks as bank need not keep greater reserve in respect of such deposits. Under the Banking and Financial Institutions Act 2063 "Fixed account means as account of amounts deposited in a bank for certain period of time." The customers opening such account deposit their money in the account for a fixed period. Usually, only the person or institution who wants to gain more interest opens such type of account. High interest rate is paid to this deposit as compare to saving deposits. The bank and the customer can take benefit from this deposit. The bank invests this money on the productive sector and gains profit and the customer too can be made his financial transaction stronger by getting more interest from

this deposit. The principal amount with interest must be returned to the customer after expiry of fixed time. In England these deposits are repayable subject to a period of notice and hence known as time deposit or time liabilities means that these are withdraw able subject to a period of notice and not on. Fixed deposit receipt is not transferable by endorsement and certainly not negotiable. However the debt covered by the fixed deposit receipts can be assigned. Bank generally gives loans up to 90% of the deposit against the security of the deposit. For this bank charge some interest higher than the interest allowed on the deposit demand (Radhaswamy & Vasu Devan, 1979:72).

### **2.1.7 Importance of Deposit**

Deposit arises from saving. An individual's income equals consumption plus saving. S/he deposits the saved part of income in the bank and gets interest from it. Banks in turn lend this money and earn profit by charging high interest rates. The borrowers from banks, invests this fund in productive sectors yielding more return than the interest on borrowed fund. This investment leads to create new employment opportunity in the economy. Ultimately due to new employment the purchasing power of the economy increases and finally GDP and growth of the economy occurs. It means that the deposit has very important role in the economy. There is a direct relationship between deposit of banks and the investment in the economy. If the volume of deposit is low, the investment in the economy also lags behind due to lack of resources. The deposit of banks is the accumulated capital which can directly be invested. There is a great need of such deposit in the developing countries. Deposit includes the idle money of the public, bank being the inter-mediator to accept this sort of money and help to canalize this in productive sector. So the importance of banks and financial intermediaries is larger in present context (Radhaswamy & Vasu Devan, 1979:76)

### **2.1.8 Features of Sound Lending and Fund Mobilization Policy**

Income and profit of the financial institutions like commercial banks and financial institutions depend upon its lending procedure, lending policy and mobilizing collected fund through investing in different securities. The greater the credit created by the bank the higher will be the profitability. Some required features of sound lending policy and fund mobilization is explained as under:

**1. Safety and Security:** - Financial institutions should invest their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

**2. Legality:-** Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be lost.

**3. Liquidity:** - Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

**4. Profitability:** - To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.

**5. Tangibility:** - A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly doesn't yield an income a part from intangible securities, which have lost their value due to price level inflation.

**6. Purpose of loan:** - Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. So, they should collect detailed information about the plan and scheme of the borrowing.

**7. Diversification:** - A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies (Thapa, 2065:108-109).

### **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" (Venhorn and Wachowicz, 1995:11).

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. 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, commusample financeating 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.

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.

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 if income over consumption. Investment is the expander 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. These 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 financial 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.

### **2.1.11 Advantages of Deposit Mobilization**

**1. 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.

**2. 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.

**3. 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.



**4. 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.

**5. 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.

**6. To Check-up Mis-utilization 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 mis-utilization of money.

**7. 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.

**8. 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 loan and advances. Thus, deposit mobilization helps to keep good co-ordination between different sectors.

**9. 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.

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.

### **2.1.12 Conceptual Review of Investment**

Though commercial bank can earn some interest and dividend from the investment on government securities share and debentures, it is not the major portion of income, but it is treated as a second source of banking business.. Banks are such types of institutions, which deal in money and substitute for money. They deal with credit and credit instrument. The most important thing for the bank is good circulation of credit. Fluctuate flow of credit and decisions harm the whole economy and the bank as well. Thus, to collect fund effectively and its well utilization is the very challenging task for the bank. The decision of an investment of fund may be the question of life and death for the bank. Commercial banks may extend credit by purchasing government securities, bond and shares for several reasons. Some of them are given as.

- It may want to space its maturities so that the inflows of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if its primary/resource becomes inadequate.
- It may also be forced to invest because the demands for loan has decreased or is not sufficient to absorb its excess reserve.

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

Investment has many factors, it may involve putting money into bond, treasury bills, or notes or common stocks, or painting of real estates, or mortgages or oil ventures, or selling short in bear markets. It may involve options, straddles, tights, warrants, convertibles, margin, gold silver, mutual funds, money market funds, index funds and results in accumulation of wealth or dissipation of resources diversity and challenge.

Characterize the field for the able or lucky, the reward may be substantial. For the uninformed the results may be disastrous.

The investment objective is to increase systematically the individual's wealth, defined as assets minus liabilities. The higher the level of the desired wealth the higher the must be received. An investor seeking higher return must be willing to face higher level of risk." The word investment brings forth vision of profit, risk, speculation and wealth. Most of people invest their excess fund to different sectors for future financial gains and to protect the purchasing power of their saving against price of goods, due to inflation. (John & Edward, 1986:88).

" An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time. The funds are the expected rate of inflation and also for the uncertainty involved in the future flows of funds" (Frank, 1986:51).

From the above definition, it is clear that an investment means to trade a known rupee amount today for some expected future stream of payment of benefits that will exceed the current outlay by an amount that will compensate the investor for the time. The funds are committed for the expected changes in prices during the period and for the uncertainty involved in expected future cash flows. Thus investment is the most important function of commercial banks. It is the long-term commitment of the bank in the uncertain and risky environment. It is very challenging task for commercial banks. So a bank has to be very cautious while investing their funds in various sections. The success of the bank depends heavily upon the proper management of its invisible funds.

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank for example, the bank may invest by lending the funds to various business companies. These firms in turn may invest the money in new factories and equipments to increase their production. In addition to borrowing from banks most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bond to obtain funds to invest in such projects as the construction of dams, roads and schools. All such investment involves a present sacrifice of income to get an expected future benefit. As a result, investments raise a nation's standard of living.

“A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks. On the other hand risk on banking sectors tends to be concentrated on the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amount of loan that have become uncollectible due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound prudent in order to protect public funds” (Shakespeare, 1997:96).

### **2.1.13 Major Investment of Commercial Banks**

#### **A. Investment in the Securities**

The third line of defense to meet demands for cash and serving, the quick source of funds is the bank’s liquid security holding, often called secondary reserves. “These assets normally compose more than one third of total assets of banks. These typically include holding of shorter-term government bonds like treasury-bills, development bonds, etc., and other securities purchased in the open market and readily converted into cash in the financial market. These security bear low risk, low return, but higher liquidity. The remaining securities where the banks invest in are direct and indirect investments, in the sectors by virtue of statutory requirements are imposed. For example, most of the Nepalese commercial banks feel convenient to invest in the rural development bank’s shares as this complies both with NRB regulations for priority sector lending and also they get moderate return from them” (Subedi, 2006:45).

“Commercial banks invest their excess funds in the shares and debentures of other companies. They generally invest when there is excess of funds over the required when there is no alternative opportunity to make investment in the profitable sector. Now-a-days, the commercial banks of Nepal have purchased shares and debentures of regional development banks, NIDC and other development banks, etc. These types of investments are mainly made for their income generating power and for other advantage like tax shelter, etc. Investments are recorded in their cost price or market values whichever is lower.” (Subedi, 2006:54).

## **B. Loans and Advances**

This is the primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the profitable source of revenue. This occupies the highest proportion of assets of any commercial banks bearing more than 40% of the assets used. But a bank has to be more careful while providing loans and advances since they may not be realized in a short period of time. And

sometimes they may turn into bad debt. Therefore, it is not wise to rely on them at the time of emergency for all banks.

A commercial bank hardly lends money for a longer period of time. It lends money for a short period of time that can be collected in a short period of time. The commercial banks are never bound to provide long-term loan because it has to synchronize the loans and advances with the nature of deposits they receive. Loans and advances are provided against the personal security of the borrower or against the security of the immovable and movable properties. Banks provide the loans in the various forms such as overdraft, cash credit, direct loans and discounting bills of exchange.

## **C. Other Assets**

The great majority of banks' assets are financial claims. However, banks' assets also include the value of bank buildings, vehicles, equipments, computers (Hardware and Software) and other miscellaneous fixed assets like deferred revenue expenditures, leaseholds and free holds, prepaid expenses and advances. However, only a small portion of total assets is covered in this category.

### **2.1.14 Major Sources of Funds**

#### **A. Deposits**

The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. It is a direct claim of outsiders to the bank. The total assets of banks are financed by more than 75% from the deposits. Normally, deposits are classified into three categories: demand deposits, saving deposits and fixed deposits. Demand deposits are permitted for unlimited check writings, but they do not bear any interest liabilities. However, a minimum balance is fixed for the depositors. By the viewpoint of banks, these are the cost free deposits but banks are not confirmed to invest

them for a longer period, since can be demanded at any time. This is an easy mean of circulating transactions and suitable for business concerns. Saving deposits are normally meant for the individuals, non-profit making organizations and other who are for saving motive and also want to earn some interest from the deposits. However, there is a minimum fixed balance. Banks offer interest in the minimum monthly balance to the saving depositors and also permit withdrawals and deposits to these accounts. However, banks impose some constraints in the maximum one-time withdrawal limit. If the maximum one time limit is exceeded and minimum balance is not maintained, no interest is offered to the depositors. These deposits are of somehow stable and banks can feel confirmed to invest them in the medium term financings. Fixed term deposits (also called time deposits) are the major sources for bank's longer- term investments as these deposits bear fixed maturity periods. These deposits are offered a stipulated interest rate (normally higher than the savings rate), a fixed denomination of amount and a prefixed maturity period. Banks tend to offer different interest rates to these deposits accounting to the deposit amount and maturity time. The more amount and longer the maturity period, the higher the interest rate and vice versa.

Nowadays, Nepalese commercial banks have introduced a different type of deposit account: Call Deposit. Banks are happy to find the heavy corporate source of deposit stable in the time span. Banks are interested to find the single source of heavy deposits constable to invest it in the market. These types of deposits have various benefits. Banks can serve a single corporate deposit or more carefully than various small accounts. The deposits are of constable nature and banks can invest them without hesitation. So, banks provide a special interest rate to such deposit, permit to write checks against them, but also fix a minimum balance for maintaining this account.

## **B. Borrowings from the Non-Deposit Sources**

A sizable amount of funds stem from miscellaneous liability accounts. Bank assets are supported from other non-deposit liabilities with or without costs. Bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks are some examples of nominal cost bearing sources. However, these are short-term liabilities, due to no obligation for banks to maintain reserve for them. These types of liabilities are also important for banks. Other cast free sources of liabilities are accrued interest payables, deferred expenses, accounts payable, deferred tax liabilities, obligations such as bankers'

acceptances, banker's checks, matured time deposits, remittance awaiting disposals and other liabilities.

### **C. Stockholder's Equity/Internal Financing Sources**

Every new bank begins with a minimum amount of owners' capital and borrows funds from the public to lever up its operation. These capitals normally account less than 10% value of the total assets. So, banks are the institutions having the greatest financial leverage using from external sources of financing. Though, being a relatively small item, bank's capital account typically includes value of paid up capital, share premium, statutory and other reserves and retained/ploughed back profits. Usually, the largest item in the capital account is retained earnings, undivided profits, which include accumulated profit over each year after payment of dividends.

The banks are such type of institutions, which deal in money, substitute for money, the deal with credit and credit instruments. Good circulation of credit is very much important for the banks .unsteady and unevenly flow of credit harms the economy. Thus, to collect fund and utilize it in a good investment is not a joke for such organization. The secret of successful banking is to distribute resources between the various joins of assets in such a way as to get a sound balance between liquidity and profitability. So there is cash (in hand quickly) to meet every claim and at the same enough income for the bank to pay its way and earn profits for its shareholders. Bank is government regulated, profit making organization that operates in comparison with other banks and financial institutions to serve the credit needs of its customers. The primary business of bank is accepting deposit and lending money. Bank accepts deposits from customers who want the safety and convenience of deposit and the opportunity to earn interest on their excess funds. Bank put their depositor's funds to other individuals ...to other business...and to federal state and local government. A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will able to repay the loan. Bhattacharya, in his book has put the recommendation of Tandem committee to prepare this report in 1975. "However, recommendation skills deserve great significance in the sector to credit appraisal and lending breaking away from the additional methods of

appraisal. The system proposed by the committee enjoyed upon the banker” (Bhattacharya, 1998:75).

- To assess the need based credit of the borrower on a rational basis.
- To ensure proper end use of bank credit by keeping a closer watch on the borrowers business and thus to ensure safety of all bank funds.
- To improve the financial discipline of the borrowers
- To develop the healthy relationship between the bankers and the borrowers.

The committee examined the existing system of lending recommended the following broad changes in the lending system.

- The credit needs of borrower are assessed on the basis of their business plan.
- Bank credit is only the supplementary to the borrowers’ resources and not in replacement of them.
- Borrowers are required to hold inventory and receivable according to norms prescribed by the Reserve Bank of India time to time.
- Credit is made available in different components only depending upon the nature of holding of various current assets.
- In order to facilitate a close watch on the operation of borrowers, they are required to submit, at regular intervals, data regarding to their business and financial operations, both for the past and future period.

The committee held that any time a business required holding the following current assets for the operations of a business.

- Raw materials including stores and other items used in manufacturing process.
- Stock in process
- Finished goods.



## 2.2 Review of Journals and Articles

**Khadka (2008)**, in his article entitled “*Role of Saving, Investment & Capital Formation in Economic Development of Nepal*” has studied about the strong role & impact of saving, investment & capital formation on economic development of Nepal. The results presented in this paper suggest that in all cases GOP is significantly associated with saving. Investment and capital formation both at current prices and in real terms. The result of the empirical analysis led to three important conclusions: first, saving, investment & capital formation have positive impact on economic development. Second, the current values & past values of saving, investment & capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving & capital formation on economic development while weak role-played by investment.

**Tamang (2009)**, 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.

**Nepal (2010)** in his articles, “*Deposit Mobilization, Its Problem and Prospects*” He has presented the following problems in the context of Nepal.

- People do not have knowledge and proper education for saving in institutional manner. They should know financial organizational process, withdrawal system, depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.
- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.
- By operating rural banking programmers and unit

- Nepal Rastra Bank must organize training programmers to develop the skilled human resources.
- By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

**Shrestha (2011)**, 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.

**Banks and Financial Institutions Regulation Department NRB (Directives No. 16/068)**, “*Provisions Relating to Collection of Financial Resources*” following Directives have been issued, having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, with regard to the financial resources to be collected by the institutions licensed by this Bank.

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

- The "A" Class licensed institutions may mobilize financial resources without any limitation. Provided that in case of borrowing, one third of the total deposit liability in maximum may be mobilized.
- The "B" Class licensed institutions may mobilize financial resources (with or without interest of all types of deposits, borrowings and debt instruments) up to twenty times of their Core capital fund. Provided that in case of borrowing one third of the total deposit liability in maximum may be mobilized.
- The "C" Class licensed institutions may mobilize financial resources (with or without interest of all types of deposits, borrowings and debt instruments) up to fifteen times of their Core capital fund. Provided that in case of borrowing, one third of the total deposit liability in maximum may be mobilized.
- The "D" Class licensed institutions may mobilize financial resources up to thirty times of Core capital fund. Provided that except in cases of clause 12 of these Directives, collection of deposits from non-members shall not be allowed.

**Explanation:** "Financial resources" means funds collected from group members by way of deposit, borrowing and debentures.

- For the purpose of monitoring the limit of mobilization of financial resources, the core capital fund maintained at the last quarter shall be considered as the base.

## **2. Limit for Institutional Deposit Collection**

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

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

- The licensed institutions shall prepare and apply rules and procedures covering the types, period, and so on of the deposits that the institution is to accept and implement. Such Rules and procedures shall be submitted to Banks and Financial Institution Regulation Department and concerned Supervision Department of this Bank.
- The licensed institutions shall submit the details of dormant deposit accounts which is not in operation for the last ten years and not claimed, to this Bank within one month from the close of each of the fiscal years.
- The licensed institutions shall submit the details of unpaid dividend not collected by the shareholder or his/her heir for a period of five years from date of declaration to this Bank within one month from the closure of the fiscal year.
- The licensed institutions shall publish, at least once, the particulars of inoperative deposit accounts or unclaimed deposits or unpaid dividend mentioned under Sub-Clauses (1) or (2) above in the national level newspapers within one month of the above-mentioned period. If the amount is not claimed even after such publication, the amount has to be deposited into the account as directed by this Bank.

- The licensed institution may open saving account only in cases of natural person, or organizations/ associations (including Postal Saving Banks) which have been established with not profit making objective. In cases of saving accounts opened by other organizations /institutions, except natural persons and not profit-making organizations, the accounts have to be closed without delay. Moreover, according to the acceptable banking norms, the concerned institution shall have to distinguish the accounts that have to be issued cheque book and that have not to be issued cheque book and cheque books have to be issued accordingly. Provided that the said provisions shall not prohibit the non-natural persons such as organizations, associations, companies to open accounts earning interests other than saving accounts.

#### **4. Borrowing**

- The licensed institutions may borrow funds from banks and financial institutions, individual, firm, company and corporate body not exceeding the limit prescribed in Clause (1) above.
- Notwithstanding anything contained in Sub-clause 1 above, the licensed institutions all take approval of this Bank for borrowing funds or accepting financial assistance from foreign government or international organizations/institutions.

#### **5. Provisions Relating to Deposit Transaction**

- Licensed banks and financial institutions shall not be allowed to maintain deposits and have loan transaction in financial institutions which have been mobilizing deposit and carrying out loan transactions according to other prevailing laws. Provided that this provision shall not apply in cases of the financial institutions established with objective of carrying out bulk transaction of micro-finance.

#### **6. Share Deposit Scheme May be Operated**

The licensed banks and financial institution (belonging to classes 'A', 'B', 'C' and 'D') may operate shares deposit schemes subject to the following terms and conditions:-

- In case the saving depositors under the shares deposit scheme desire to purchase the shares (promoters group) of the said company, they have to be eligible to become promoters according to the Banks and Financial Institutions Act, 2006, the unified Directives issued from this Bank and the provisions made in the policy for providing license.
- The depositors desiring to change the deposit collected under the shares deposit scheme into ordinary shares (promoters group), the provisions and processes referred to in the prevailing laws relating to securities transactions have to be complied with and at the time of giving the shares of promoter group to the depositors in such a way, the banks and financial institution shall have to provide the promoter shares to them only after obtaining an approval from the Nepal Securities Board as well.
- It shall have to be clearly stated in the internal policies /Byelaws of the concerned companies that it must be publicized for public information to the saving depositors desiring to purchase promoter group shares being involved in the scheme that shares of promoters group may be purchased only after fulfilling the required processes having abided by the laws and Directives relating securities subject to the Banks and Financial Institutions Act, 2006, policy provisions made by this Bank and other prevailing laws.

### **2.3 Review of Previous Theses**

**Shrestha (2009)** conducted a research on “*Investment Practice of Joint Venture Banks in Nepal*”. He has selected three joint venture banks i.e. EBL Bank Limited, Standard Chartered Bank Limited and SBI Bank Limited for the study of lending and investment practice. The main objectives of his study were;

- To highlight the features and problems of investment lending procedure in foreign commercial banks and their implementation in practical life
- To study priority sector investment and repayment rate of commercial banks in Nepal through intensive banking program.
- To show the repayment position of the sector of the three commercial banks.

The major findings of this study were as follows.

- Commercial banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial banks have lots of deposits but very little investment opportunities. They are even discouraging people by offering very low interest rates and minimum threshold balances.
- liquidity position of EBL and SCBNL have not found satisfactory. Therefore, suggested them to improve cash and bank balance to meet current obligations.
- SCBNL's loan and advances to total deposit ratio is lower at all, therefore it is recommended to follow liberal lending policy for enhancement of lend mobilization.
- It was found that SBI had not invested its fund on share and debenture of other companies. It is suggested to enhance off balance sheet transactions, diversifying investment, open new branches, play merchant banking role and invest their risky assets and shareholders fund to gain higher profit margin.
- EBL and SCBNL are recommended to increase cash and bank balances to meet current obligations and loan demand.

**Rai (2010)**, conducted a research on "*Analysis of Investment Policy of Commercial Bank of Nepal*". 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 were as follows;

- 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 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 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 of CV of return on assets (ROA) of SCBNL is better than that of NBBL and HBL.
- 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 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 in stronger in increasing loan and advances.

**Katuwal (2011)**, conducted a research on “*Mobilization of Deposit and Investment of EBL 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 EBL. The main objectives of the study were:

- To examine how far the interest rates of deposits have positive relationship with the deposit collection of EBL Bank.
- To see the impact of interest rate of loan on the credit extended by EBL Bank.
- To study the increasing and decreasing trend of deposit mobilization of EBL Bank.
- To compare the performance of deposit and investment of EBL.

The major findings of this study were;

- 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 EBL 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.
- 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.

**Lamsal (2012)** conducted a research on “*Mobilization of Deposit & Investment of Nabil Bank Limited*” The major objective of the study is to analyze the deposit and investment position of NABIL bank and the other specific objectives were as follows.

- To explore the deposit and investment trend of NABIL.
- To assess the impact of interest rate on deposit collection by the NABIL.
- To examine the relationship between deposit and investment of NABIL.
- To compare the performance of deposit and investment of NABIL.

The major findings of this study are as follows.

- The current deposit, saving deposit, and margin deposit are in fluctuating trend over the study period and the call deposit and fixed deposit are in increasing trend over the study period.
- The total deposit of NABIL is in increasing trend in FY 2067/068 the total deposit is Rs. 19347.39 million and then increase by 20.65% in the fiscal year 2068/069, 32.73% in FY 2066/067.
- Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 17.03% in FY 2068/069 and the lowest ratio is 14.55% in the FY 2066/067. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 45.33% in FY 2067/68.
- The fixed deposit to total deposit ratio is in increasing trend except FY 2067/068. The highest FD to TD ratio is 33.99% in the FY 2068/069 and the lowest ratio is 17.83% in the FY 2066/067. The mean value of CD to TD, SD to TD and FD to TD are 20.90, 54.95 and 15.90 respectively and standard deviation is 4.15, 11.55 and 6.99 respectively.

- Growth ratio of total deposit of NABIL during the period of study is 24%. So, it can be said that NABIL has the satisfactory position in term of collection deposit. Growth ratio of total credit is 25% under the period of study which is high in compared to the growth ratio of total deposit i.e. 24%. It shows that the bank is highly utilizing the collected deposit as per the growth of total deposit. The growth ratio of total investment is 22% under the period of study which is low in compared to the growth ratio of total deposit and credit.

**Khadka (2013)** conducted a study on “*Investment Policy of Commercial Bank of Nepal*” a comparative study of NABIL with NABIL Bank and BOK. Her major objectives were as follows.

- To examine the liquidity assets management and profitability position and investment policy of NABIL in comparison to NABIL and BOKL.
- To analyze the relationship between loan and advance and total investment with other financial variable of NABIL and compare with NABIL and BOKL.
- To study the various risks in investment of NABIL in comparison to NABIL and BOKL.

Majors findings of her research were

- NABIL has higher idle cash and bank balance. It may decrease profit of bank. It is good to invest more on share & debentures as it encourage financial and economic development of the country.
- A commercial bank must mobilize its fund in different sector such as to purchase share & debentures of other financial and non financial companies out of total working fund. NABIL has invested its more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture in very nominal.
- Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said “all eggs should not be kept in the same basket”. The bank

should make continuous effort to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.

- NABIL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor's fund.
- On the basis of above facts, it is seen that NABIL has invested much of its fund in total outside assets but it has not achieved the desired result.
- The risk taken by NABIL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle.

## **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 mobilization of Deposit and Investment. There have been numerous research studies on commercial banks and public enterprises regarding mobilization of Deposit and Investment. Some studies are related to case study of two company and some others are comparative in nature.

The financial and statistical tools used by most of the researchers were ratio analysis, test of hypothesis. This research includes different tools like ratio analysis, correlation analysis and co-efficient of variation, growth rate analysis, trend analysis as specific tools. Thus the research study made on "Deposit Mobilization of EBL & NIC Bank" has been an effort to analyze on detail about mobilization of Deposit and Investment of sample Banks in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people as well.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

Generally, Research methodology refers to the numerous processes adopted by the researchers during the research period. It is the technique to solve the research problem in systematic manner. This includes many techniques and is crucial for every research work. The main objective of this research work is to evaluate the deposit mobilizing procedure adopted by sample banks.

Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objectives in view.

This study will seek the conclusion to the point that what kind of position sample banks has got and suggested the precious and meaningful points so that all concerned can fruitful from this research work.

#### **3.1 Research Design**

A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives.

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them, they are derived with the help of some financial and statistical tools were adapted to evaluate the deposit mobilization of sample banks. Therefore this study follows descriptive research design.

## **3.2 Population and Sample**

### **3.2.1 Population**

The total variables/observation is simply called population. Population refers to the industries of the same-nature of its service & product and it is the collection or the aggregate of objects or the set of results of an operation.

On our case, there are 31 commercial banks at present in the market. These 31 commercial banks are regarded as population.

### **3.2.2 Sample**

On the other hand sample means the representative parts of population selected from it with the objectives of investigating its properties. Thus, a sample is just a portion of the population selected with a view to draw conclusions about the population under study. As it is not possible to study all population/industry, we have taken only two commercial banks as sample from the whole population.

### **3.2.3 Sample Selection Procedure**

Being the researcher is associated with the sample bank (as he is working there for last 5 years), sample is taken as it has been easy to get required information related to this study. Further, researcher has planned to submit a copy of this study to the management which is expected to help the management team to take necessary action based on problem/findings and suggested solutions, if any. In this study, the population size is 31 and the sample size is 2. The sample size is 6.46% of the population size in this study.

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

The study is mainly based on secondary data. The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance Sheet, Profit & Loss account and literature publication of the concerned banks. The NEPSE report of the concerned banks has furnished some important data to this research work. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra Bank, Central Library of T.U., Shankar Dev Campus library, Nepal Stock Exchange Limited,

Security Exchange Board, Economic Survey, National Planning Commission, different journals, magazines and other published and unpublished reports documented by the authorities as well as the web site of concern companies.

### **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 sample banks, NRB publications, the data regarding the profile of sample banks and other related documents were collected from internet websites. Unpublished master's thesis, books, research papers, articles, journals have been collected mainly from Centre Library of Tribhuvan University, library of SDC and NRB Magazines and newspapers were from concerned authorities.

### **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 banks and statistical tools are used like percentage change, credit deposit ratio, growth ratio, co-efficient 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:

$$\text{Annual percentage change} = \frac{\text{Amount of this Year} - \text{Amount of Last Year}}{\text{Amount of Last Year}}$$

**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.
- Growth ratio of total investment.

**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 income and interest expenses.
- Co-efficient of correlation between total deposit and total investment.

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.

**b. Least Square Linear Trend Analysis:** - Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms. On the basis of tendencies in the dependent variables in the past periods, the future trend is predicted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variable are repeated in the future or the past events affect the future events significantly. The future trend is forecasted by using the following formula.



$$Y = a + bx$$

where,

Y = the dependent variable

a = the origin i. e. arithmetic mean

b = the slope coefficient i. e. rate of change

X= the independent variable

## **CHAPTER-IV**

### **PRESENTATION AND ANALYSIS OF DATA**

Presentation and analysis of data is the most important in any research or dissertation. So that, this chapter is more effective and evaluative in the research process. Therefore analysis parts are presented in detailed. Different financial, statistical and other required analyses, which are related to deposit mobilization, are studies to evaluate and analyze the performance and condition of financial position of EBL and NIC Bank. This analysis helps in to improve the any wrong situation of the banks financial condition. So that deposit mobilization of EBL and NIC studies the economic good or bad trend of the bank. Data are analyzed according to the figures in the table and mentioning the reasons of increasing and decreasing trend of EBL and NIC Bank ltd..

#### **4.1 Analysis of Deposit**

##### **4.1.1 Deposit Position of Sample Banks**

Deposit is that types of amount which is deposited by the money senders in banks or other financial institutions for safe keeping with an obligation to invest for it. The banks or financial institutions main sources are the different kinds of deposits for financial existence. Existence of the commercial banks basically depends upon the mobilization of deposits. The commercial banks may function when they have adequate deposit amount. Higher the volume of deposits, higher the volume of investment and lending which generated the amount of profit. So commercial bank first of all tries to mobilize as much deposit as possible. Therefore deposited amount is the most required things of any banks or financial institutions which systematically generated or mobilize, helps in the existence of the banks in long time.

##### **Deposit Position of EBL**

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 EBL also tries to mobilize as much as possible deposit to earn more profit.

**Table: 4.1**

**Deposit Position of EBL**

(Rs. In Millions)

Year	Current Deposit	Saving Deposit	Call Deposit	Fixed Deposit	Total Deposit	% Changes
2064/65	1337.58	6929.22	1293.3	4242.35	13802.44	-
2065/66	1956.81	9029.25	1573.5	5626.67	18186.2	31.76
2066/67	2865.61	11883.86	2780.65	6446.18	23976.3	31.84
2067/68	5196.63	14728.33	6294.00	7049.98	33322.95	38.98
2068/69	4719.19	13360.01	8412.8	10440.28	36932.31	10.83

Source: Annual Reports of EBL from 2064/65 to 2068/69

**Figure: 4.1**

**Deposit Position of EBL**

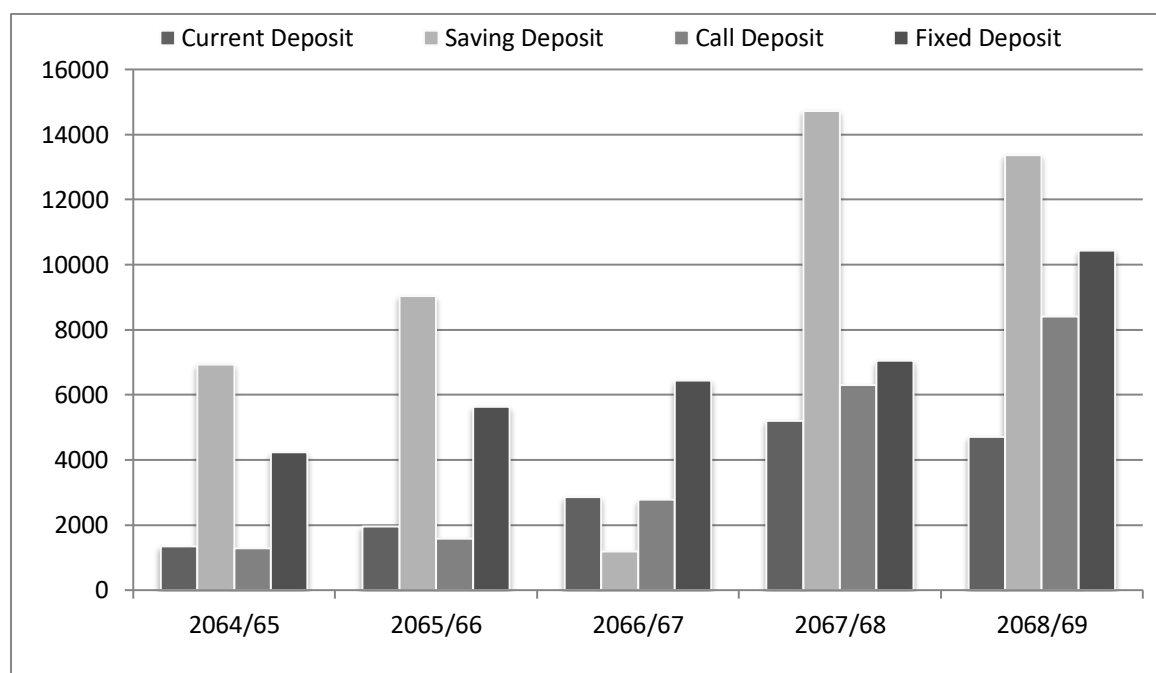


Table 4.1 and Figure 4.1 show the deposit position of EBL. The total deposit of EBL in 2064/65 is Rs. 13802.44 million. During the next five year the total deposit of EBL is in increasing trend. In the fiscal year 2068/69 the total deposit of EBL is Rs. 36932.31 million. Similarly the current deposit, saving deposit, call deposit and fixed deposit are also is in increasing trend over the study period.

**Figure: 4.2**

**Trend of Total Deposit**

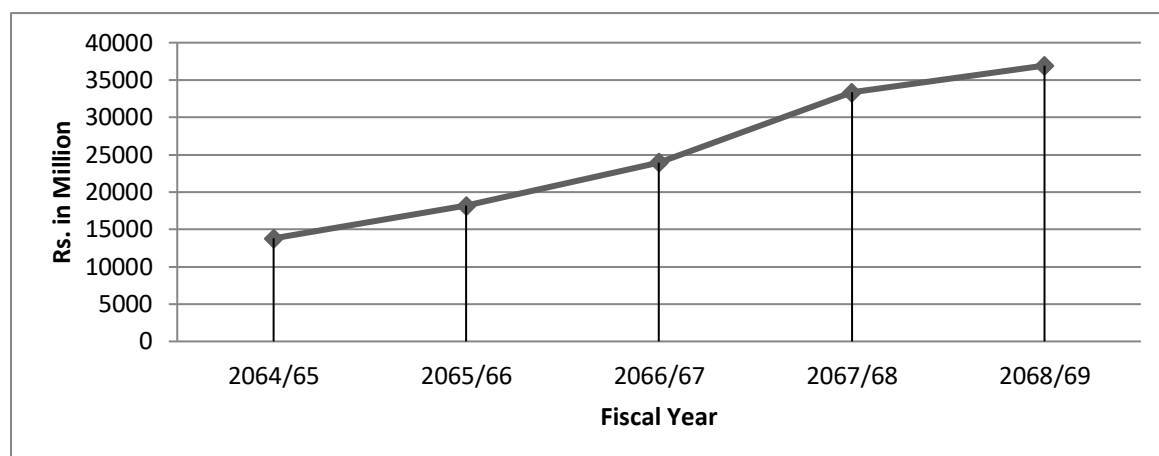


Figure 4.2 shows the total deposit of EBL is in increasing trend in FY 2064/65 the total deposit is Rs. 13802.44 million and then increase by 31.76% in the fiscal year 2065/66, 31.84% in FY 2066/67, 38.98% in FY 2067/68 and 10.83% in FY 2068/69.

**Deposit Position of NIC**

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 the volume of lending and investment which again creates higher volume of profit.

**Table: 4.2**

**Deposit Position of NIC**

**Rs. in Million**

Year	Current Deposit	Saving Deposit	Fixed Deposit	Margin Deposit	Call Deposit	Total Deposit	% Changes
2064/65	510.20	3,335.67	4,074.56	81.61	2,066.19	10,068.23	-
2065/66	654.18	3,667.90	5,875.95	72.25	2,814.41	13,084.69	29.96
2066/67	834.69	3,993.72	7,580.06	102.19	3,069.28	15,579.93	19.07
2067/68	1,219.90	3,715.85	7,554.06	121.52	3,357.60	15,968.92	2.50
2068/69	1,609.45	3,869.85	9,517.55	105.98	3,291.61	18,394.44	15.19

Source: Annual Reports of NIC from 2064/65 to 2068/69

**Figure: 4.3**  
**Deposit Position of NIC**

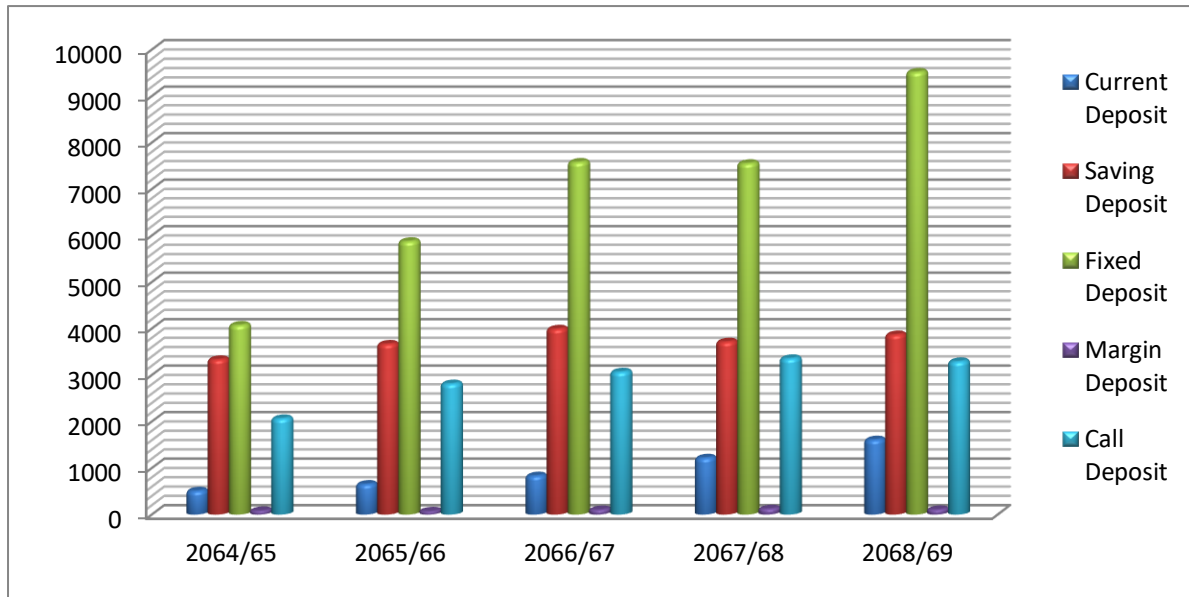


Table 4.2 and Figure 4.3 shows the deposit position of NIC. The total deposit of NIC in 2064/65 is Rs. 10068.23 million. During the next five year the total deposit of NIC is in increasing trend. In the fiscal year 2068/69 the total deposit of NIC is Rs. 18394.44 million. The current deposit and Call deposit are in increasing trend and saving deposit, fixed deposit and margin deposit are in fluctuating trend over the study period.

**Figure: 4.4**  
**Trend of Total Deposit of NIC**

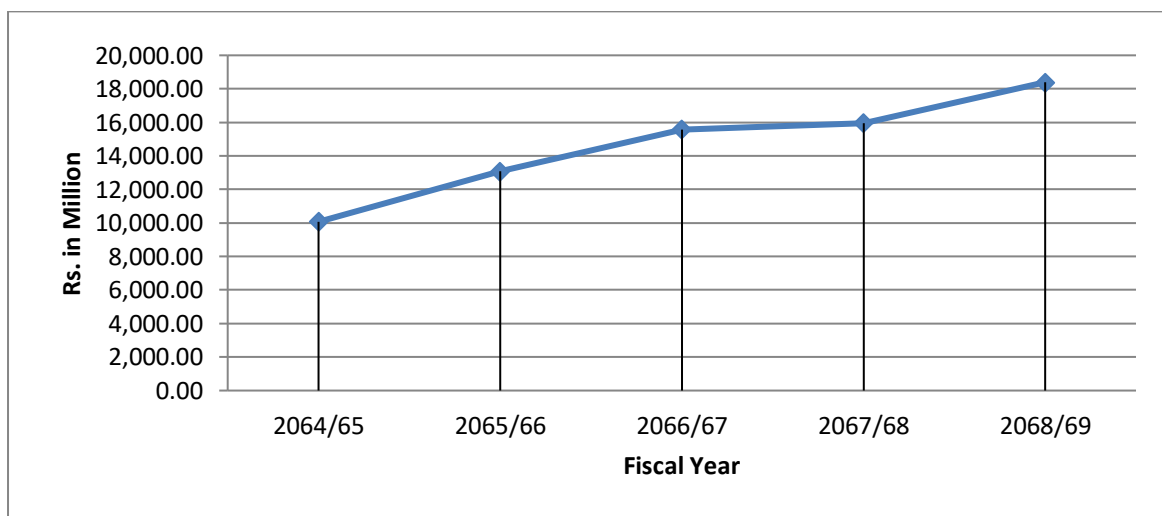


Figure 4.4 shows that the total deposit of NIC is in increasing trend in FY 2064/65 the total deposit is Rs. 10068.23 million and then increase by 29.96% in the fiscal year 2065/66, 19.07% in FY 2066/67, 2.50% in FY 2067/68 and 15.19% in FY 2068/69.

#### 4.1.2 Different Types of Deposit to Total Deposit Ratios

This ratio measures the proportion of different type of deposit in total deposit. There are mainly three type of deposit in commercial banks. A current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand.

The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule.

Fixed account means as account of amounts deposited in a bank for certain period of time. The customers opening such account deposit their money in the account for a fixed period.

**Table: 4.3**

#### **Different Types of Deposit to Total Deposit Ratios of EBL**

(Rs. In Millions)

<b>Year</b>	<b>Current Deposit</b>	<b>Saving Deposit</b>	<b>Fixed Deposit</b>	<b>Total Deposit</b>	<b>CD to TD (%)</b>	<b>SD to TD (%)</b>	<b>FD to TD (%)</b>
2064/65	1337.58	6929.22	4242.35	13802.44	9.69	50.20	30.74
2065/66	1956.81	9029.25	5626.67	18186.2	10.7	49.65	30.94
2066/67	2865.61	11883.86	6446.18	23976.3	11.95	49.57	26.89
2067/68	5196.63	14728.33	7049.98	33322.95	15.59	44.20	21.16
2068/69	4719.19	13360.01	10440.28	36932.31	12.78	36.17	28.27

*Source: Annual Reports of EBL from 2064/65 to 2068/69*

**Figure: 4.5**

**Trend of Different Types of Deposit to Total Deposit Ratios of EBL**

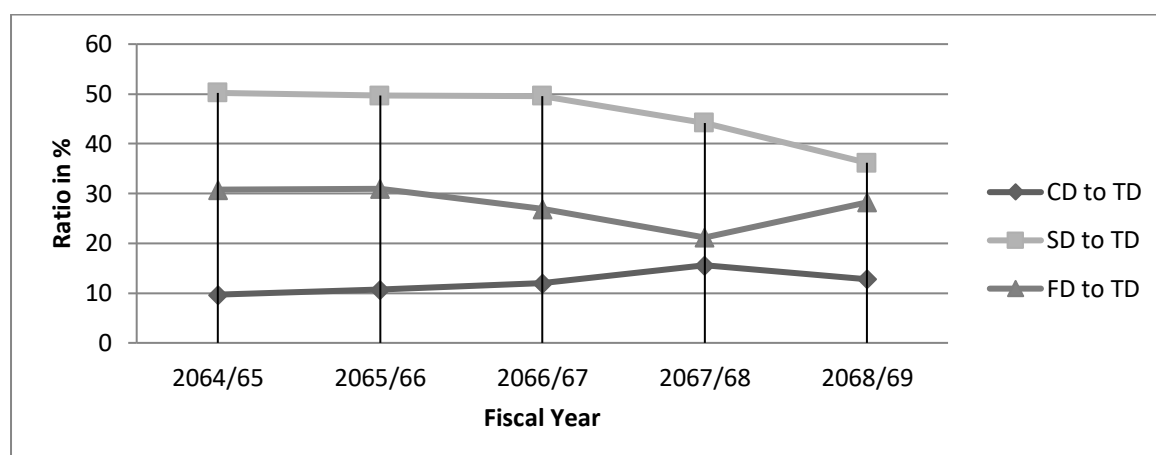


Table 4.3 and figure 4.5 show different types of deposit and their proportion in the total deposit are shown. Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 15.59% in FY 2067/68 and the lowest ratio is 9.69% in the FY 2064/65. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 50.205 in FY 2064/65 and the lowest ratio is 36.17% in FY 2068/69. Similarly, the fixed deposit to total deposit ratio is in also fluctuating trend except FY 2065/66. The highest FD to TD ratio is 30.94% in the FY 2065/66 and the lowest ratio is 21.16% in the FY 2067/68.

**Table: 4.4**

**Different Types of Deposit to Total Deposit Ratios of NIC (Rs. in Million)**

Year	Current Deposit	Saving Deposit	Fixed Deposit	Total Deposit	CD to TD	SD to TD	FD to TD
2064/65	510.20	3,335.67	4,074.56	10,068.23	5.07	33.13	40.47
2065/66	654.18	3,667.90	5,875.95	13,084.69	5.00	28.03	44.91
2066/67	834.69	3,993.72	7,580.06	15,579.93	5.36	25.63	48.65
2067/68	1,219.90	3,715.85	7,554.06	15,968.92	7.64	23.27	47.30
2068/69	1,609.45	3,869.85	9,517.55	18,394.44	8.75	21.04	51.74
<b>Mean(<math>\bar{X}</math>)</b>					6.36	26.22	46.61
<b>S.D (<math>\sigma</math>)</b>					1.72	4.66	4.23

Source: Annual Reports of NIC from 2064/65 to 2068/69

**Figure: 4.6**

**Trend of Different Types of Deposit to Total Deposit Ratios of NIC**

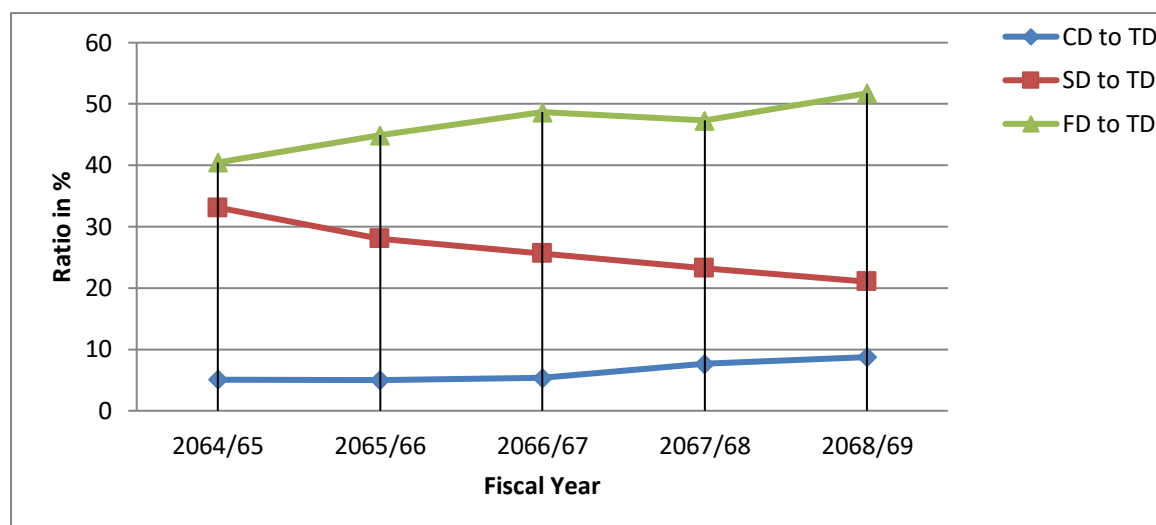


Table 4.4 and figure 4.6 major types of deposit and their proportion in the total deposit are shown. Current deposit to total deposit ratio is in increasing trend except in 2065/66 and the highest CD to TD ratio is 8.75% in FY 2068/69 and the lowest ratio is 5% in the FY 2065/66. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 33.13% in FY 2064/65 and the lowest ratio is 21.04% in FY 2068/69. Similarly, the fixed deposit to total deposit ratio is in increasing trend except 2067/68 over the study period. The highest FD to TD ratio is 51.74% in the FY 2068/69 and the lowest ratio is 40.47% in the FY 2064/65. In each fiscal year fixed deposit to total deposit ratio is higher than other ratios it means the proportion of fixed deposit is higher than other deposit of the banks.

### **4.1.3 Interest Bearing and non Interest Bearing Deposit**

The deposit in which bank pay the interest like saving deposit, fixed deposit are interest bearing deposit and the bank do not pay the interest for deposit this type of deposit are non interest bearing deposit. The position of interest bearing and non interest bearing deposit of EBL is shown in the following table and figure.



**Table: 4.5**

**Interest Bearing & Non Interest Bearing Deposit EBL**

(Rs. In Millions)

Year	Interest Bearing Deposit	% Changes	Non Interest Bearing Deposit	% Changes
2064/65	12464.87	-	1337.58	-
2065/66	16229.41	30.20	1956.81	46.24
2066/67	21110.69	30.08	2865.61	46.44
2067/68	28126.32	33.24	5196.63	81.34
2068/69	32213.12	14.53	4719.19	(9.18)

Source: Annual Reports of EBL from 2064/65 to 2068/69

**Figure: 4.7**

**Trend of Interest Bearing & Non Interest Bearing Deposit of EBL**

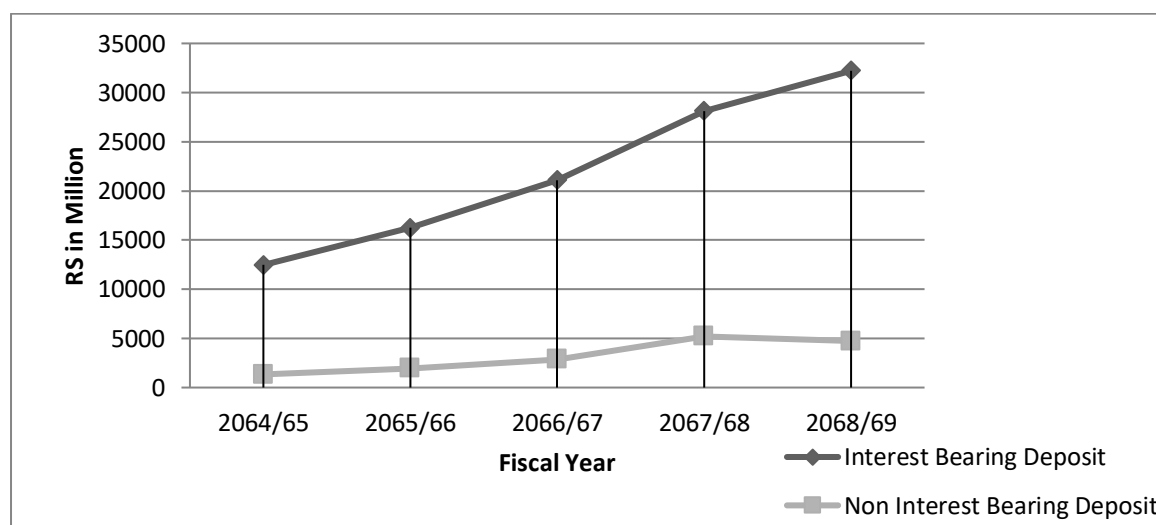


Table 4.5 and Figure 4.7 show that the interest bearing deposit of EBL is in increasing trend over the study period and the non interest bearing deposit of EBL is in also increasing trend except the FY 2068/69. It shows the non interest bearing deposit in each FY is high than interest bearing deposit.

**Table: 4.6**

**Position of Interest Bearing and Non Interest Bearing Deposit of NIC**

**Rs. in million**

Year	Interest Bearing Deposit	% Changes	Non Interest Bearing Deposit	% Changes
2064/65	9,476.42	-	591.81	-
2065/66	12,358.26	30.41	726.43	22.75
2066/67	14,643.05	18.49	936.88	28.97
2067/68	14,627.50	(0.11)	1,341.41	43.18
2068/69	16,679.00	14.02	1,715.43	27.88

Source: Annual Reports of NIC from 2064/65 to 2068/69

**Figure: 4.8**

**Trend of Interest Bearing and Non Interest Bearing Deposit of NIC**

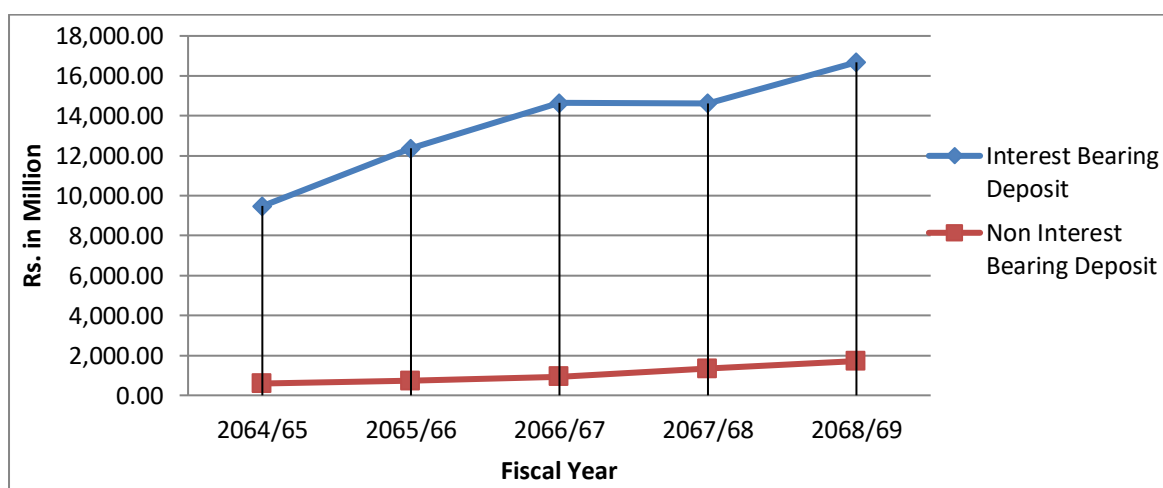


Table 4.6 and Figure 4.8 shows that the interest bearing deposit of NIC is in increasing trend over the study period except the FY 2067/68. In 2067/68 the interest bearing deposit decrease by 0.11% than previous year. And the non interest bearing deposit of NIC is in increasing trend which is increase by 22.75% in the FY 2065/66 and 27.88% in the year 2068/69.

## **4.2 Analysis of Investment**

An investment means to trade a known rupee amount today for some expected future stream of payment of benefits that will exceed the current outlay by an amount that will compensate the investor for the time. The funds are committed for the expected changes

in prices during the period and for the uncertainty involved in expected future cash flows. Thus investment is the most important function of commercial banks. It is the long-term commitment of the bank in the uncertain and risky environment. It is very challenging task for commercial banks. So a bank has to be very cautious while investing their funds in various sections. The success of the bank depends heavily upon the proper management of its investible funds.

**Table: 4.7**  
**Investment Pattern of EBL**

(Rs. In Millions)

Sector	2064/65	2065/66	2066/67	2067/68	2068/69
Nepal Govt. T-bills	3322.44	3614.54	3237.98	3371.43	2745.28
Nepal Govt. Saving Bonds	-	-	-	-	-
Nepal Govt. Other Securities	226.17	1090.09	1583.63	1774.62	2399.52
Local licensed Institutions	-	-	-	-	177.87
Foreign Banks	632.82	260.6	138.4	702.00	313.06
Corporate Share	19.89	19.89	16.23	17.12	17.11
Corporate Debentures & Bonds	-	-	84.93	84.93	84.93
<b>Total Investment</b>	<b>4201.32</b>	<b>4985.12</b>	<b>5061.16</b>	<b>5950.08</b>	<b>5009.91</b>
Less: Provisions	0.8	0.8	1.6	1.6	1.6
<b>Net Investments</b>	<b>4200.51</b>	<b>4984.31</b>	<b>5059.56</b>	<b>5948.48</b>	<b>5008.31</b>

Source: Annual Reports of EBL from 2064/65 to 2068/69

**Figure: 4.9**  
**Investment Pattern of EBL**

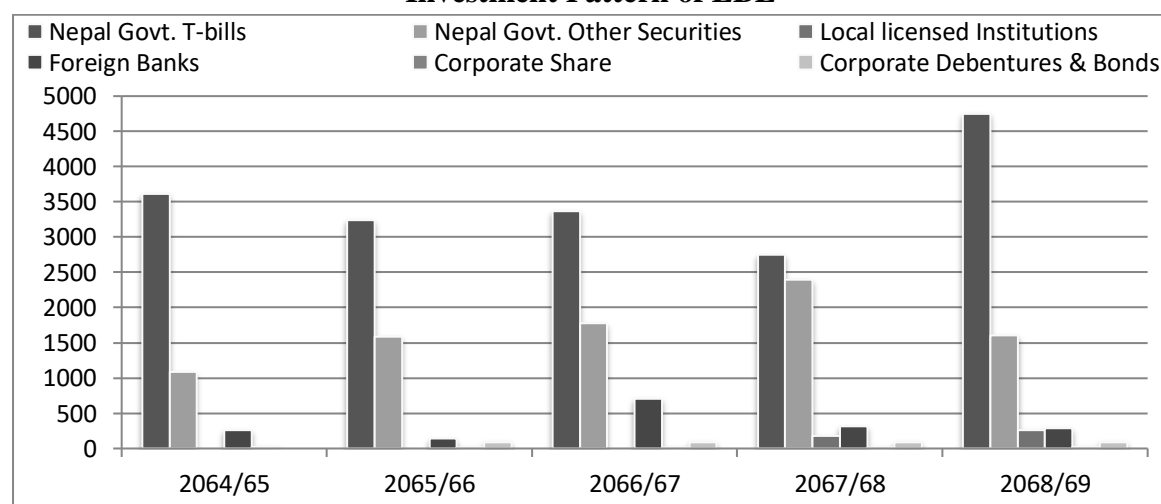


Table 4.7 and Figure 4.9 shows the investment portfolio of EBL, the major sectors of investment are Nepal Govt. T-bills, Nepal Govt. Other Securities, Local licensed Institutions, Foreign Banks, Corporate Share, and Corporate Debentures & Bonds. The EBL invest the high amount in the Nepal govt. treasury bills in each year, it is risk free assets for investment. The investment trend in treasure bills is in fluctuating trend over the study period, the amount of investment in each year is Rs. 3614.54, 3237.98, 3371.43, 2745.28 and 4745.49 millions respectively in each year respectively.

**Table: 4.8**

**Investment Pattern of NIC**

**Rs. in million**

<b>Sector</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>	<b>2068/069</b>
Nepal Govt. T-bills	1,048.09	1,385.25	1,973.61	2,893.43	2,682.64
Nepal Govt. Saving Bonds	-	-	-	-	-
Nepal Govt. Other Securities	55.97	160.13	221.39	1,085.47	1,182.50
Nepal Rastra Bank Bonds	-	-	-	-	-
Foreign Securities	-	-	-	291.16	131.98
Local licensed Institutions	100.00	50.00	20.00	230.00	-
Foreign Banks	378.83	689.63	784.43	418.92	641.25
Corporate Share	16.59	26.47	26.59	27.79	30.54
Corporate Debentures & Bonds	-	-	-	-	-
Other Investments	-	-	-	-	-
<b>Total Investment</b>	<b>1,599.48</b>	<b>2,311.47</b>	<b>3,026.02</b>	<b>4,946.78</b>	<b>4,668.91</b>
Less: Provisions	-	-			
<b>Net Investments</b>	<b>1,599.48</b>	<b>2,311.47</b>	<b>3,026.02</b>	<b>4,946.78</b>	<b>4,668.91</b>

*Source: Annual Reports of NIC from 2064/065 to 2068/069*

**Figure: 4.10**

**Trend of Total Investment of NIC**

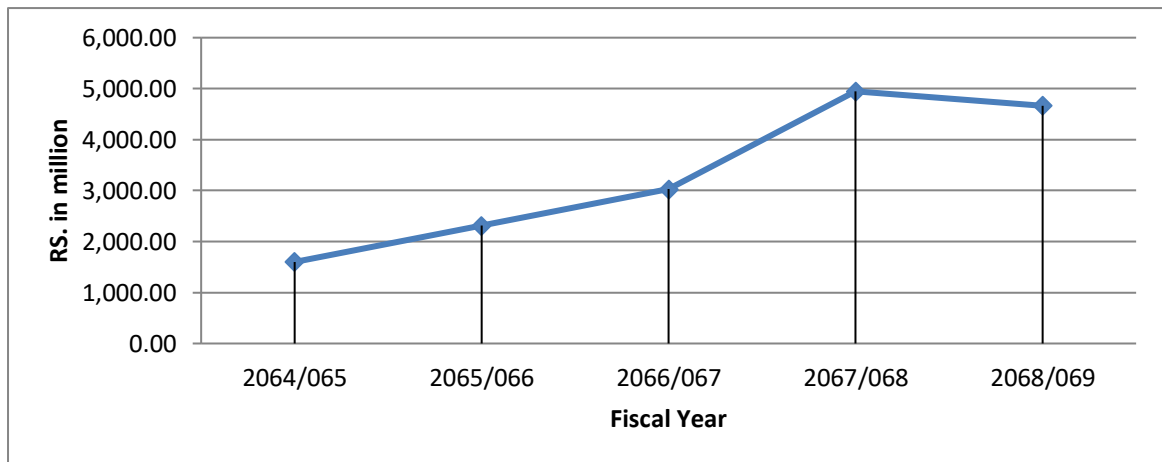


Table 4.8 and Figure 4.10 shows the investment pattern of NIC, the major sector of investment are Nepal Govt. T-bills, Nepal Govt. Saving Bonds, and Nepal Govt. Other Securities, Local licensed Institutions, Foreign Banks, Corporate Share, and Corporate Debentures & Bonds. The NIC invest the high amount in the Nepal govt. treasury bills in each year, it is risk free assets for investment. The investment trend in treasure bills is in increasing trend except 2068/69 over the study period, the amount of investment in each year is Rs. 1048.09, 1385.25, 1973.61, 2893.43 and 2682.64 million respectively in each year respectively.

The second investment sector is Nepal government other securities which holds Rs. 55.97, 160.13, 221.39, 1085.47 and 1182.50 million each year respectively. The trend of investment is in increasing over the study period.

The third highest investment sector of NIC is foreign banks, the amount invested by NIC in foreign banks are Rs. 378.83, 689.63, 784.43, 418.92 and 641.25 million respectively in each year. The trend of investment in foreign bank is in fluctuating each year.

Investment in the corporate share is in increasing trend except in 2068/69 over the study period and other sector investment are in fluctuating trend over the study period. The total investment of NIC is in increasing trend over the study period except the year 2068/069.

### 4.3 Analysis of Credit Position

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: 4.9**

**Credit Position of EBL and NIC**

(Rs. In Millions)

Sample Bank	EBL		NIC	
	Total Credit	% Changes	Total Credit	% Changes
2064/65	14001.82	-	8,941.40	-
2065/66	18648.41	33.19	11,264.68	25.99
2066/67	23398.66	25.48	13,679.39	21.44
2067/68	29833.15	27.50	12,732.01	-6.93
2068/69	23564.67	-21.02	14,933.94	17.29

Source: Annual Reports of EBL from 2064/65 to 2067/06

**Figure: 4.11**

**Trend of Credit Position of EBL & NIC**

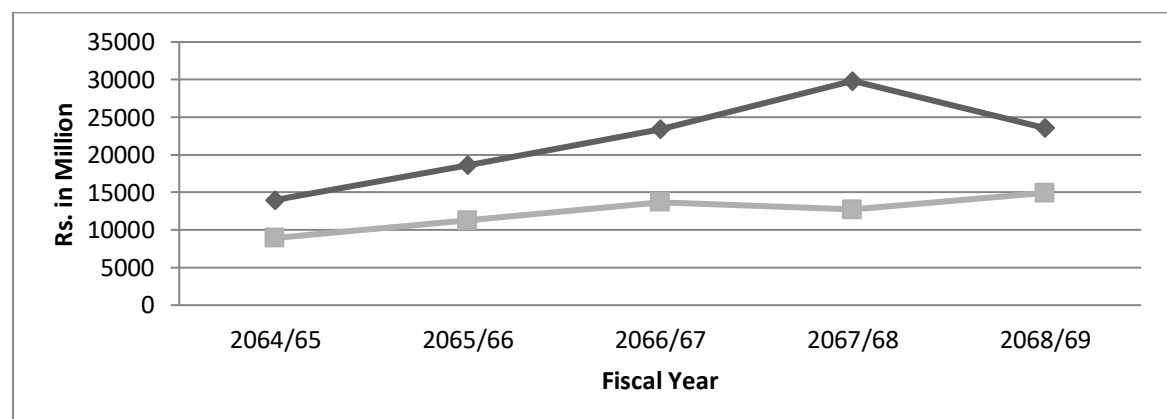


Table 4.9 and Figure 4.11 shows the overall credit position of EBL and NIC till the year end 2068/69, the trend of credit is increasing except 2068/69 of EBL and 2067/68 of NIC ie -21.02% and -6.93% respectively.

### 4.3.1 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: 4.10**  
**Credit Deposit Ratio** (Rs. In Millions)

Year	EBL			NIC		
	Total Credit	Total Deposit	CD Ratio (%)	Total Credit	Total Deposit	CD Ratio (%)
2064/65	14001.82	13802.44	101.45	8,941.40	10,068.23	88.81
2065/66	18648.41	18186.2	102.54	11,264.68	13,084.69	86.09
2066/67	23398.66	23976.3	97.59	13,679.39	15,579.93	87.80
2067/68	29833.15	33322.95	89.53	12,732.01	15,968.92	79.73
2068/69	23564.67	36932.31	63.82	14,933.94	18,394.44	81.19

Source: Annual Reports of EBL from 2064/65 to 2068/69

**Figure: 4.12**

#### Trend of Credit Deposit Ratio of EBL & NIC

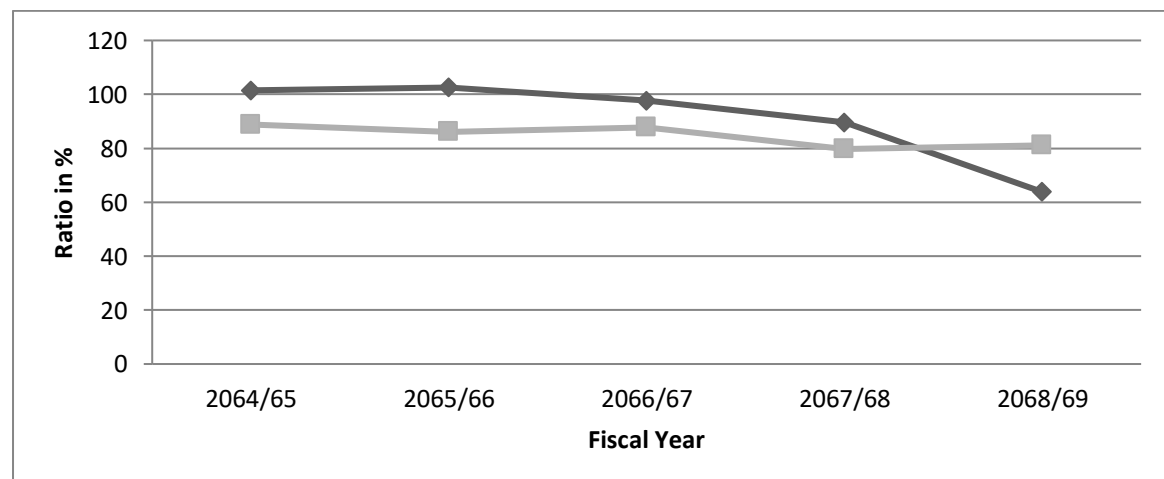


Table 4.10 and Figure 4.12 shows the Credit Deposit ratio of EBL and NIC, where the highest ratio is 102.54% in FY 2065/66 of EBL. But the ratio is the lowest in the year 2068/69 i.e. 63.82% which is extremely lower over the study period. CD ratio is in decreasing trend it is not in satisfactory condition. 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.

It can be said that there is a greater relationship between deposits and credit of NIC. Increase in deposits leads to increase in credit, but immense increase in the deposits leads to a little bit increase in credit. The highest ratio of NIC is 88.81% in FY 2068/69 and the lowest is 79.73% in FY 2067/68. The higher amount of deposit of this bank than credit is due to the constriction of this bank in deposit collection. The bank successes to attract people to deposit their savings. Higher the CD ratio indicates the more effective working policy of the bank. So that, higher utilization of the resources in the bank means good managing ideas or policy of the bank.

#### **4.4 Growth Ratio Analysis of EBL and NIC**

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,

$D_n$  = Total amount in the  $n^{\text{th}}$  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 Ration of Total Deposit and Growth Ration of Total Credit.



**Table: 4.11****Growth Ratio of Total Deposit and Total Credit   Rs. in million**

Year	NIC		EBL	
	Total Deposit	Total Credit	Total Deposit	Total Credit
2064/65	10,068.23	8,941.40	13802.44	14001.82
2065/66	13,084.69	11,264.68	18186.2	18648.41
2066/67	15,579.93	13,679.39	23976.3	23398.66
2067/68	15,968.92	12,732.01	33322.95	29833.15
2068/69	18,394.44	14,933.94	36932.31	23564.67
<b>Growth Ratio</b>	<b>16.30%</b>	<b>13.70%</b>	<b>28%</b>	<b>14%</b>

*Source: Appendix VI*

From the Table 4.11, it is found that the growth ratio of total deposit of NIC during the period of study is 16.30%. So, it can be said that NIC deposit collection in higher growth ratio. The growth ratio of total credit is only 13.70% under the period of study period. It shows that the bank is utilizing the collected deposit as per the growth of total deposit. So, it can be concluded that the bank seems in better condition to increase the growth ratio of total credit.

It is found that the growth ratio of total deposit of EBL during the period of study is 28%. So, it can be said that EBL has the satisfactory position in term of collection deposit. Here it is found that the growth ratio of total credit is only 14% under the period of study which is very low in compared to the growth ratio of total deposit i.e. 28%. 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 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:

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

#### 4.5.1 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: 4.12**  
**Correlation Coefficient between Total Deposit & Total Credit**

Evaluation Criteria						
Name	R	$r^2$	P.E (r )	6 P.E (r )	Remarks	Relationship
NIC	0.98	0.97	0.018	0.106	Significant	High Degree of Positive Correlation
EBL	0.84	0.70	0.1316	0.789	Significant	High Degree of Positive Correlation

Source: Appendix III

Table 4.12, 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 of NIC is 0.98 and EBL is 0.84 ie 98% and 84% respectively. This figure shows the positive association between deposit and credit of both banks. It means deposit and credit both move towards same direction.

The coefficient of determination ( $r^2$ ) of NIC is 0.97 and EBL is 0.70 it shows that 97% and 70% of the variation in the dependent variable (i.e. total credit) has been explained by the independent variable (i.e. total deposit) respectively.

The value of P.E. (r) of NIC is 0.018 & EBL is 0.1316 and 6.P.E (r) of NIC is 0.106 & EBL is 0.789. The value of correlation coefficient (r) is greater than six times of probable error {6.P.E (r)} of both banks. Therefore true value of 'r' is significant. It reveals that there is significant relationship between the deposit collection and credit extension.

There is positive relationship between total deposit and total credit of both banks. 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.

#### 4.5.2 Correlation Coefficient between Fixed Deposit and Saving Deposit:

Correlation coefficient between Fixed Deposit and saving deposit measures the degree of relationship between them. For correlation analysis, fixed deposit 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 fixed deposit is significantly correlated with saving deposit or not.

**Table: 4.13**  
**Correlation Coefficient between Fixed Deposit & Saving Deposit**

Evaluation Criteria						
Name	R	$r^2$	P.E (r)	6 P.E (r)	Remarks	Relationship
NIC	0.85	0.720	0.084	0.504	Significant	High Degree of Positive Correlation
EBL	0.75	0.56	0.1956	1.174	Insignificant	High Degree of Positive Correlation

*Source: Appendix III*

Table 4.13 shows that the calculated value of correlation coefficient ( $r$ ) between fixed deposit and saving deposit of NIC is 0.85 and EBL is 0.75; there is high degree of Positive correlation between these two variables of both banks. Again, coefficient of determination ( $r^2$ ) of NIC is 0.720 and EBL is 0.56. It indicates that 72% and 56% of the variation in the saving deposit (dependent variable) has been explained by fixed deposit (independent variable) respectively.

Generally, probable error is used to measure the significance of the relation between two variables. The probable error P.E. ( $r$ ) is 0.1956 and 6.P.E ( $r$ ) is 0.1.174. Since the ' $r$ ' is less than 6.P.E ( $r$ ), it can be concluded that the relation between the fixed deposit and saving deposit is significant or there is high degree of association between these two variables.

#### **4.6 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 EBL and NIC 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. Sample banks 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 NIC & EBL.

### 4.6.1 Trend Analysis of Total Deposit and Total Credit:

Under this topic, trend values of the total deposit and total credit of BEL, for the period of study has been calculated and forecasted for the next 5 years, from 2069/70 and 2073/74. The following table presents the trend value of deposit and Credit.

**Table: 4.14**

**Forecasted Trend Value of Deposit & Credit of EBL**

Year	X	Trend Line & Trend Value	
		Deposit (Y = 25244.04+6139.62X)	Credit(Y = 21889.34 + 3031.04X)
2069/70	4	$25244.04+6139.62 \times 4=49802.52$	$21889.34 + 3031.04 \times 4=34013.50$
2070/71	5	$25244.04+6139.62 \times 5=55942.14$	$21889.34 + 3031.04 \times 5=37044.54$
2071/72	6	$25244.04+6139.62 \times 6=62081.76$	$21889.34 + 3031.04 \times 6=40075.58$
2072/73	7	$25244.04+6139.62 \times 7=68221.38$	$21889.34 + 3031.04 \times 7=43106.62$
2073/74	8	$25244.04+6139.62 \times 8=74361.00$	$21889.34 + 3031.04 \times 8=46137.66$

Source: Appendix I and II

**Figure: 4.13**

**Forecasted Trend Line of Deposit & Credit of EBL**

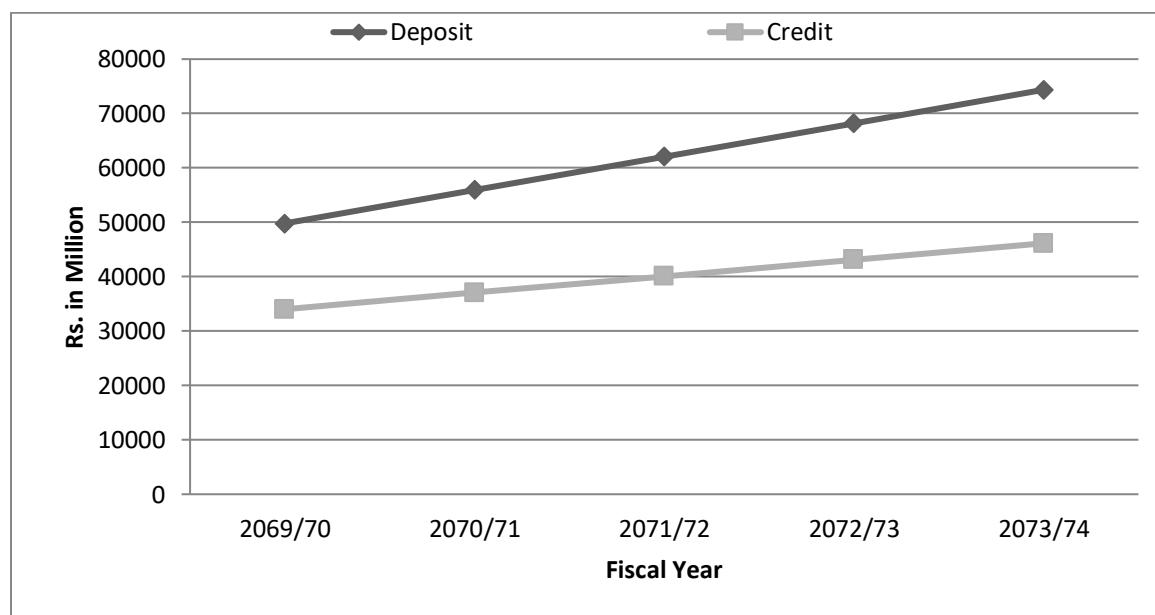


Table 4.14 and Figure 4.13, show the increasing trend of total deposit and credit of EBL. 'Y' has shown the trend value of total deposit. Since, the calculated value of 'b' is positive, it is found that the bank's deposit is increasing with time. It shows that the deposit increasing by Rs. 6139.62 million every year. On the basis of this calculation, it can be forecasted that the bank's total deposit will become Rs. 49802.52 million in the year 2069/70 and it will become Rs. 74361.00 million in the year 2073/74.

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. 3031.04 million every year. On the basis of this calculation, it can be forecasted that the banks total credit will become Rs. 34013.50 million in the year 2069/70 and it will become Rs. 46137.66 million in the year 2073/74.

Under this topic, trend values of the total deposit and total credit of NIC, for the period of study has been calculated and forecasted for the next 5 years, from 2069/70 to 2073/74. The following table presents the trend value of deposit and Credit.

**Table: 4.15**  
**Forecasted Trend Value of Deposit & Credit of NIC**

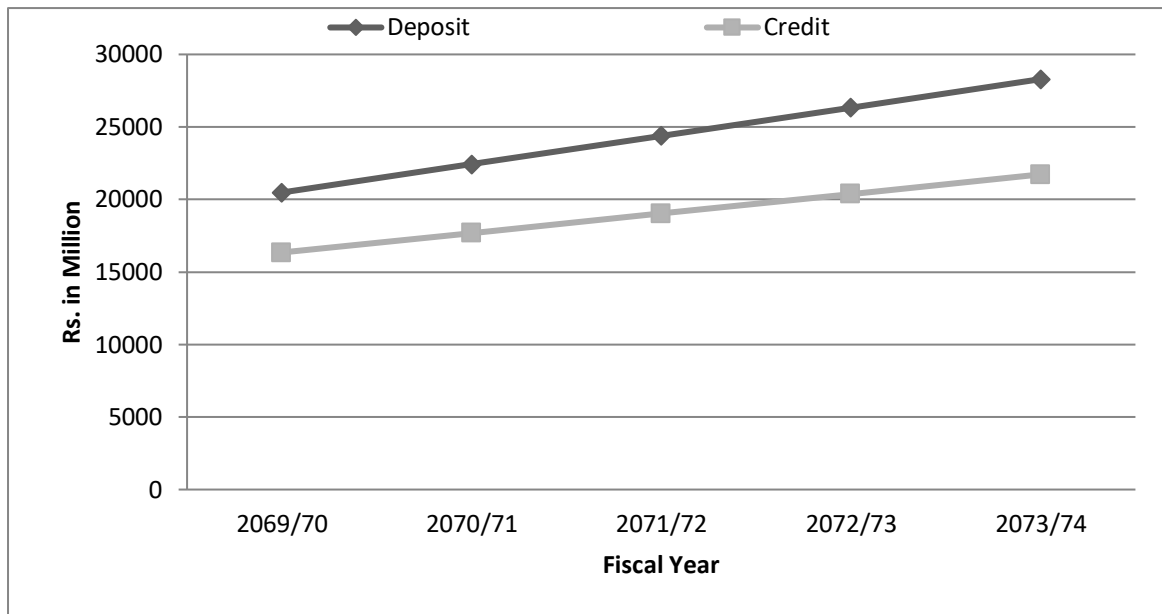
Year	X	Trend Line & Trend Value	
		Deposit (Y) = 14619.24 + 1953.66X	Credit(Y) = 12310.28 + 1345.24 X
2069/70	4	$14619.24 + 1953.66 \times 3 = 20480.22$	$12310.28 + 1345.24 \times 3 = 16346$
2070/71	5	$14619.24 + 1953.66 \times 4 = 22433.88$	$12310.28 + 1345.24 \times 4 = 17691.24$
2071/72	6	$14619.24 + 1953.66 \times 5 = 24387.54$	$12310.28 + 1345.24 \times 5 = 19036.48$
2072/73	7	$14619.24 + 1953.66 \times 6 = 26341.2$	$12310.28 + 1345.24 \times 6 = 20381.72$
2073/74	8	$14619.24 + 1953.66 \times 7 = 28294.87$	$12310.28 + 1345.24 \times 7 = 21726.96$

*Source: Appendix IV and V*

Table 4.15 and Figure 4.14, show the increasing trend of total deposit and credit of NIC. '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. 1953.66 million every year. On the basis of this calculation, it can be forecasted that the bank's total deposit will become Rs. 20480.22 million in the year 2069/70 and it will become Rs. 28294.87 million in the year 2073/74.

**Figure: 4.14**

**Forecasted Trend Line of Deposit & Credit of NIC**



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. 1345.24 million every year. On the basis of this calculation, it can be forecasted that the banks total credit will become Rs. 16346 million in the year 2069/70 and it will become Rs. 21726.96 million in the year 2073/74.

#### **4.7 Major Findings**

For the study of Deposit Mobilization of EBL and NIC, the five years data have been considered. The analysis has been done according to the nature and quality of the available data. The following major findings are drawn;

- In the analysis of deposit position of EBL, it is observed that deposit position percentage change is normal except in the financial year 2068/69. In that year, the percentage change is decrease by 10.83% than previous year. In case of NIC the percentage change is decrease by 2.50% than previous year in FY 2067/68.
- The analysis revealed the normal condition of the sample banks in the credit position except 2068/69 of EBL and 2067/68 of NIC. The percentage change in the credit position is in decreasing trend during the study period of both banks.

- The proportion of interest bearing deposit is in increasing trend over the study period and the proportion of non interest bearing deposit is also in increasing trend over the study period except 2068/69 of EBL. In case of NIC the proportion of interest bearing deposit and non interest bearing deposit are in increasing trend over the study period except 2067/68 of interest bearing deposit.
- The highest percentage change of credit position of EBL is 33.19% in FY 2065/66 and the lowest is -21.02% in FY 2068/69 and in case of NIC, the highest percentage change of credit position is 25.99% in FY 2065/66 and the lowest is -6.93 in FY 2067/68.
- The trend of credit position is in increasing except 2068/69 of EBL and 2067/68 of NIC.
- Credit Deposit ratio is the highest in the year 2065/66 of EBL i.e. 102.54% and 2064/65 of NIC i.e. 88.81%. which is extremely higher of both banks. But the ratio is the lowest in the year 2068/69 of EBL i.e. 63.82% and FY 2067/68 of NIC i.e. 79.73% which is extremely lower over the study period of both banks. CD ratio is in decreasing and fluctuating trend and it is not in satisfactory condition.
- The growth ratio of total deposit of EBL and NIC during the period of study is 28% and 16.30% respectively. So, it can be said that EBL has the satisfactory position in term of collection deposit then NIC.
- The growth ratio of total credit is of EBL and NIC is 14% and 13.70% under the period of study which is very low in compared to the growth ratio of total deposit of both banks. It shows that the bank is not utilizing the collected deposit as per the growth of total deposit.
- Correlation coefficient between total deposit and total credit of EBL and NIC shows the positive relationship between these two variables. Since  $r^2 = 0.70$  of EBL and 0.97 of NIC, it indicated that 70% and 97% of the variation in the total credit has been explained by the deposit of both banks. Since  $r < 6.P.E. (r)$ , there is no significant relationship between the deposit collection and credit extension of both banks, however these two variables are positively associated with each other.



- Correlation coefficient ( $r$ ) between fixed deposit and saving deposit of EBL and NIC is 0.75 and 0.85 respectively; there is high degree of Positive correlation between these two variables. Again, coefficient of determination ( $r^2$ ) is 0.56 and 0.72 respectively. It indicates that 56% and 72% of the variation in the saving deposit (dependent variable) has been explained by fixed deposit (independent variable) of both banks.
- The total deposit of EBL and NIC has been found in increasing trend. The total deposit of EBL and NIC will become Rs. 49802.52 and Rs. 20480.22 million in the year 2069/70 and it will become Rs. 74361.00 and Rs. 28294.87 million in the year 2073/74 respectively, if all the other factors remain constant.
- The total credit of EBL and NIC also has been found in increasing trend. The total credit of EBL and NIC will become Rs.34013.50 and Rs. 16346 million in 2068/69 and it will become Rs.46137.66 and Rs. 21726.96 million in the year 2073/74 respectively, if all the other factors remain constant.

## **CHAPTER-IV**

### **SUMMARY, CONCLUSION AND 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 mobilization of deposit of EBL and NIC. The researcher has tried to give suggestions and recommendations to the commercial banks based on this research.

#### **5.1 Summary**

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.

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 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. To fulfill the main objectives following specific objectives are formulated.

- . To examine and analyze different types of deposit schemes offered by sample banks.
  - a. To evaluate the trend of deposit and Credit of sample banks.
  - b. To evaluate the credit position of sample banks.
  - c. To analyze the relationship between deposit and credit of sample banks.

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 bank, 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.

Research design, population and sample and analysis tools are included in the third chapter. The data are collected from secondary source for the study. The secondary data are collected from annual reports of sample bank, 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, sampled 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 sampled 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 too. 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 investment policy 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 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 EBL and NIC also helps in this process for countries growth.

## **5.3 Recommendations**

Through the analysis from the above study, a few recommendations are referred below, which if implemented, may help further to EBL and NIC.

- 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 taken by the bank. Further it can launch several latest technologies in the banking field like Credit Cards, complete banking facilities etc.

- Ethics of staff impresses the customers and create interest to improve the performance of the company. Hence, full co-operation 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 program 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, agriculture, tourism, health and education can be considered as the best sector for investment, which are more secure and can generate a reasonable profit.
- 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.
- Nepal is full of poor people where there is less saving. Considering it EBL and NIC should target their business segment in the middle family. For this they have to keep the affordable minimum balance to open the account with other attractive schemes which will help to expand customer base and deposit amount.
- The liberal policy of NRB to establish new financial institution and bank, branch is challenging to the profit the banks which also promoting unhealthy competition. So EBL and NIC is suggested to make a fair competition in the market and should adopt the policy to live and let to live others which make them to compel to think the optimum policy in turn.
- Further studies can be conducted by increasing sample size, by using other financial and statistical tools.

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## **Website**

[www.cbs.gov.np](http://www.cbs.gov.np)

[www.mof.gov.np](http://www.mof.gov.np)

[www.nicbank.com.np](http://www.nicbank.com.np)

[www.nrb.org.np](http://www.nrb.org.np)

[www.sebon.com](http://www.sebon.com)



## APPENDICES

### Appendix I

#### Calculation for Mean value, & Correlation between Total Deposit & Total Credit of NIC

Year	Deposit (X <sub>1</sub> )	Credit (X <sub>2</sub> )	x <sub>1</sub> =X <sub>1</sub> - $\bar{x}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{x}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
2063/064	10,068.23	8,941.40	(4,551.01)	(3,368.88)	1,5331,832	20,711,710	11,349,379
2064/065	13,084.69	11,264.68	(1,534.55)	(1,045.60)	1,604,534	2,354,850	1,093,288
2065/066	15,579.93	13,679.39	960.69	1,369.11	1,315,284	922,921.4	1,874,451
2066/067	15,968.92	12,732.01	1,349.68	421.73	5,69,194.3	1,821,631	177,852.8
2067/068	18,394.44	14,933.94	3,775.19	2,623.66	9,904,821	14,252,120	6,883,571
<b>N<sub>1</sub> = 5</b>	<b>∑ X<sub>1</sub> =</b>	<b>∑ X<sub>2</sub> =</b>			<b>∑ x<sub>1</sub>·x<sub>2</sub> =</b>	<b>∑ x<sub>1</sub><sup>2</sup> =</b>	<b>∑ x<sub>2</sub><sup>2</sup></b>
<b>N<sub>2</sub> = 5</b>	<b>73,096.21</b>	<b>61,551.42</b>			<b>28,725,664</b>	<b>40,063,232</b>	<b>21,378,542</b>

For Total Deposit,

$$\text{Mean } (\bar{X}_1) = \frac{\sum X_1}{N_1} = \frac{73096.21}{5} = 14619.24$$

For Credit,

$$\text{Mean } (\bar{X}_2) = \frac{\sum X_2}{N_2} = \frac{61551.42}{5} = 12310.28$$

Correlation between Deposit & Credit,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{28725664}{\sqrt{40063232 \times 21378542}} = 0.98$$

$$r^2 = 0.98^2 = 0.97$$

For Probable Error,

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.97}{\sqrt{5}} = 0.018 \text{ Or, } 1.8\%$$

$$6PE = 6 \times 0.018 = 0.106$$

## Appendix II

### Calculation for Mean value, & Correlation between Fixed Deposit & Interest Rate of NIC

Year	Fixed Deposit (X <sub>1</sub> )	Interest Rate (X <sub>2</sub> )	x <sub>1</sub> =X <sub>1</sub> - $\bar{X}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{X}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
2063/64	4,074.56	5	(2,845.88)	-1.5	4,268.814	8,099,010	2.25
2064/65	5,875.95	5.5	(1,044.49)	-1	1,044.486	1,090,951	1
2065/66	7,580.06	6	659.62	-0.5	(329.812)	435,103.8	0.25
2066/67	7,554.06	8	633.62	1.5	950.436	401,479.4	2.25
2067/68	9,517.55	8	2,597.11	1.5	3,895.671	6,745,001	2.25
<b>N<sub>1</sub> = 5</b>	<b>∑ X<sub>1</sub> =</b>	<b>∑ X<sub>2</sub> =</b>			<b>∑ x<sub>1</sub>·x<sub>2</sub> =</b>	<b>∑ x<sub>1</sub><sup>2</sup>=</b>	<b>x<sub>2</sub><sup>2</sup>=</b>
<b>N<sub>2</sub> = 5</b>	<b>34,602.18</b>	<b>32.5</b>			<b>9,829.595</b>	<b>16,771,546</b>	<b>8</b>

For Fixed Deposit,

$$\text{Mean } (\bar{X}_1) = \frac{\sum X_1}{N_1} = \frac{34602.18}{5} = 6,920.44$$

For Interest rate,

$$\text{Mean } (\bar{X}_2) = \frac{\sum X_2}{N_2} = \frac{32.5}{5} = 6.5$$

Correlation between Deposit & Interest rate,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{9829.595}{\sqrt{16771546 \times 8}} = 0.85$$

$$r^2 = 0.85^2 = 0.720$$

For Probable Error,

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.720}{\sqrt{5}} = 0.084 \text{ or } 8.4\%$$

$$6PE = 6 \times 0.084 = 0.504$$

### Appendix III

#### Calculation for Mean value, & Correlation between Total Deposit & Loan & Advances of NIC

Year	Deposit (X <sub>1</sub> )	Loan & Advance (X <sub>2</sub> )	x <sub>1</sub> =X <sub>1</sub> - $\bar{X}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{X}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
2063/064	10,068.23	8,941.40	(4,551.01)	(3,368.88)	15,331,831.5	20,711,710.2	11,349,379
2064/065	13,084.69	11,264.68	(1,534.55)	(1,045.60)	1,604,533.71	2,354,849.84	1,093,288
2065/066	15,579.93	13,679.39	960.69	1,369.11	1,315,283.7	922,921.433	1,874,451
2066/067	15,968.92	12,732.01	1,349.68	421.73	569,194.304	1,821,630.7	177,852.8
2067/068	18,394.44	14,933.94	3,775.20	2,623.66	9,904,820.88	14,252,119.9	6,883,571
<b>N<sub>1</sub> = 5</b>	<b>∑ X<sub>1</sub> =</b>	<b>∑ X<sub>2</sub> =</b>			<b>∑ x<sub>1</sub>·x<sub>2</sub> =</b>	<b>∑ x<sub>1</sub><sup>2</sup>=</b>	<b>∑ x<sub>2</sub><sup>2</sup></b>
<b>N<sub>2</sub> = 5</b>	73,096.21	61,551.42			28,725,664.1	40,063,232.1	21,378,542

For Total Deposit,

$$\text{Mean } (\bar{X}_1) = \frac{\sum X_1}{N_1} = \frac{73096.21}{5} = 14619.24$$

For Loan & Advance,

$$\text{Mean } (\bar{X}_2) = \frac{\sum X_2}{N_2} = \frac{61551.42}{5} = 12310.28$$

Correlation between Deposit & Loan & Advance,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{28725664.1}{\sqrt{40063232.1 \times 21378542}} = 0.98$$

$$r^2 = 0.98^2 = 0.97$$

For Probable Error,

$$\text{PE} = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.97^2}{\sqrt{5}} = 0.018 \text{ Or, } 1.8\%$$

$$6\text{PE} = 6 \times 0.018 = 0.106$$

## Appendix IV

### Trend Analysis of Total Deposit

The trend line  $Y = a + bX$  ----- (A)

Let's assume that middle year be 3, then  $X = t - 3$

Year	Total Deposit (Y)	t	X= t-3	X <sup>2</sup>	XY
2063/064	10,068.23	1	-2	4	-20136.5
2064/065	13,084.69	2	-1	1	-13084.7
2065/066	15,579.93	3	0	0	0
2066/067	15,968.92	4	1	1	15968.92
2067/068	18,394.44	5	2	4	36788.88
	$\sum y = 73096.21$		$\sum X=0$	$\sum x^2=10$	$\sum xy =$ 19536.65

Since,  $\sum X = 0$

The two normal equations obtained from the above equations will be

$$\sum Y = na \text{ ----- (i)}$$

$$\sum XY = b\sum X^2 \text{ ----- (ii)}$$

Since, n = number of years under study = 5, the value of 'a' and 'b' can be calculated by solving equation (i) and (ii).

From equation (i)

$$\sum Y = na$$

$$\text{Or, } 73096.21 = 5 \times a$$

$$\text{Or, } a = 14619.24$$

Again, from equation (ii)

$$\sum XY = b\sum X^2$$

$$\text{Or, } 19536.65 = b \times 10$$

$$\text{Or, } b = 1953.665$$

Now, putting the value of 'a' and 'b' in the equation of trend line (A),

$$Y = a + bX$$

$$\text{Or, } Y = 14619.24 + 1953.665X$$

## Appendix V

### Trend Analysis of Total Credit

The trend line  $Y = a + bX$  ----- (A)

Let's assume that middle year be 3, then  $X = t - 3$

Year	Total Credit (Y)	t	X= t-3	X <sup>2</sup>	XY
2063/064	8,941.40	1	-2	4	-17882.8
2064/065	11,264.68	2	-1	1	-11264.7
2065/066	13,679.39	3	0	0	0
2066/067	12,732.01	4	1	1	12732.01
2067/068	14,933.94	5	2	4	29867.88
	$\sum y = 61551.42$		$\sum X=0$	$\sum x^2=10$	$\sum xy =$ 13452.41

Since,  $\sum X = 0$

The two normal equations obtained from the above equations will be

$$\sum Y = na \text{ ----- (i)}$$

$$\sum XY = b\sum X^2 \text{ ----- (ii)}$$

Since, n = number of years under study = 5, the value of 'a' and 'b' can be calculated by solving equation (i) and (ii).

From equation (i)

$$\sum Y = na$$

$$\text{Or, } 61551.42 = 5 \times a$$

$$\text{Or, } a = 12310.28$$

Again, from equation (ii)

$$\sum XY = b \sum X^2$$

$$\text{Or, } 13452.41 = b \times 10$$

$$\text{Or, } b = 1345.241$$

Now, putting the value of 'a' and 'b' in the equation of trend line (A),

$$Y = a + bX$$

$$\text{Or, } Y = 12130.28 + 1345.241 X$$

## APPENDIX VI

### Growth Ratio of Total Deposit;

$$D_n = \text{Rs. } 18394.44 \text{ million}$$

$$D_0 = \text{Rs. } 10068.23 \text{ million}$$

$$n = 5 \text{ years}$$

$$g = ?$$

According to formula,

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

$$\text{Or, } 18394.44 = 10068.23 (1+g)^{5-1}$$

$$\text{Or, } (18394.44 / 10068.23) = (1+g)^4$$

$$\text{Or, } (1.827)^{1/4} = 1 + g$$

$$\text{Or, } 1.1630 = 1 + g$$

$$\text{Or, } g = 0.1630 = 16.30\%$$

### Growth Ratio of Total Credit;

$$D_n = \text{Rs. } 14933.94 \text{ million}$$

$$D_0 = \text{Rs. } 8941.40 \text{ million}$$

$$n = 5 \text{ years}$$

$$g = ?$$

According to formula,

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

$$\text{Or, } 14933.94 = 8941.40 (1+g)^{5-1}$$

$$\text{Or, } (14933.94 / 8941.40) = (1+g)^4$$

$$\text{Or, } (1.670)^{1/4} = 1 + g$$

$$\text{Or, } 1.1370 = 1 + g$$

$$\text{Or, } g = 0.1370 = 13.70\%$$