

**DEPOSIT AND INVESTMENT PATTERN OF
NEPALESE COMMERCIAL BANKS**
(With special reference of Nepal Standard Chartered Bank Ltd., Nabil Bank Ltd. and
Nepal SBI Bank Ltd.)

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RECOMMENDATION

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Entitled:
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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the degree of

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TABLE OF CONTENT

LIST OF TABLES	II
LIST OF FIGURES	III
LIST OF ABBREVIATIONS	IV

	CHAPTERS	PAGES
CHAPTER 1	INTRODUCTION	1- 9
	1 Background of the study	1
	1.1 Concept and Meaning of Study	1
	1.2 Standing at Nepalese Economy	2
	2 Commercial Banking Activities	4
	2.1 Origin of the Banks	4
	2.2 Origin and Growth of the Banks	5
	2.2.1 Nepal Bank Ltd	5
	2.2.2 Nepal Rastriya Bank	5
	2.2.3 Rastriya Banijya Bank	5
	2.2.4 Agriculture Development Bank	5
	2.2.5 The Mordern Phase of Banking Development	6
	2.3 Factors affecting the Banks activities	8
	2.4 Development of Commercial Bank In Nepal	8
	2.5 Function of Commercial Bank	12
	2.6 Banking Services	12
	3 Role of Joint Venture Bank	15
	4 Profile of Sample Bank	16
	4.1 Nepal SBI Bank Ltd (NSBL)	16

	4.2 Nabil Bank Ltd. (NBL)	18
	4.3 Nepal Standard Bank (NSBL)	24
	5 Statement of the problem	27
	6 Objectives of the study	27
	7 Significance of the study	28
	8 Limitation of the study	29
	9 Chapter Plan	30
CHAPTER 2	REVIEW OF LITERATURE	31-54
	2.1 Introduction	31
	2.2.1 Review of Literature	31
	2.2 Review of Books	31
	2.2.1 Conceptual Review of Investment	31
	2.1.4 Conceptual Review of Deposit	37
	2.3 Review of Articles	38
	2.4 Review of Master's Degree Thesis	49
CHAPTER 3	RESEARCH METHODOLOGY	
	3.1 Introduction	56
	3.2 Research Design	56
	3.3 Population and the sample	56
	3.4 Natures and Sources of Data Collection	56
	3.5 Method of Data Analysis	58
	3.5.1 Financial Tools Analysis	59
	3.5.5.1 Liquidity Ratio	60
	3.5.5.2 Activity Ratio	62
	3.5.5.3 Profitability Ratio	65
	3.5.2 Statistical Analysis	67
	3.5.2.1 Arithmetic Means	68

	3.5.2.2 Co-efficient of correlation between different variables	68
	3.5.2.3 Regression analysis	69
CHAPTER 4	PRESENTATION AND ANALYSIS OF DATA	
4.1	Introduction	70
	1.1 Sources and Use of Funds of Nepal SBI Bank Limited	71
	1.2 Sources and Use of Funds of Nepal Standard Chartered Bank Ltd	75
	1.3 Sources and Use of Funds of Nabil Bank Ltd	79
4.2	Financial and Statistical analysis	83
	4.2.1 Liquidity Ratio	83
	4.2.1.1 Cash and Bank Balance to Total Deposit Ratio	83
	4.2.1.2 Investment on Government Securities to Current assets Ratio	85
	4.2.1.3 Loan and Advance to Current Assets Ratio	88
	4.2.2 Assets Management Ratio	90
	4.2.2.1 Loan and Advance to Working Fund Ratio	90
	4.2.2.2 Investment on Government Securities to Total Working Securities	92
	4.2.2.3 Investment on Share and Debenture to Total Working Fund Ratio	94
4.3	Profitability Ratio	96
	4.3.1 Return on Loan and Advances Ratio	98
4.4	Risk Ratio	99
	4.4.1 Credit Risk Ratio	99
4.5	Co-efficient of Correlation Analysis and Regression Analysis	100
	4.5.1 Co-efficient of correlation and Regression between Deposit and Total Investment	100
	4.5.2 Co-efficient of correlation and regression analysis between Deposit and Loan and Advance	101
4.6	Analysis of Primary Data	103

4.6	Major findings	107
CHAPTER 5	SUMMARY, CONCLUSION and RECOMMENDATIONS	
5.1	Summary	112
5.2	Conclusion	114
5.3	Recommendation	116
BIBLIOGRAPHY		119-123
Annex		124-129

LIST OF TABLES

Table	Title	Pg
4.1	Sources and Uses of Funds of Nepal SBI Bank Ltd	67
4.2	Deposits Of Nepal SBI Bank	68
4.3	Deposit, Loan and Investment of Nepal SBI Bank Ltd	69
4.4	Sources and Uses of Funds of Nepal Standard Chartered Bank Ltd	71
4.5	Deposit, Loan and Investment of Nepal Standard Chartered Bank Ltd	72
4.6	Deposit, Loan and Investment of Nepal Standard Chartered Bank Ltd	73
4.7	Sources and Uses of Funds of Nabil Bank Ltd	75
4.8	Sources and Uses of Funds of Nabil Bank Ltd	76
4.9	Deposit, Loan and Investment of Nabil Bank Ltd	77
4.10	Cash & Bank Balance to Total Deposit	83
4.11	Investment on Government Securities to Current Assets Ratio	85
4.12	Loan & Advance to Current Assets Ratio	88
4.13	Loan and Advance to working Fund Ratio	91

4.14	Investment on Government Securities to Total Working Fund Ratio	92
4.15	Investment on Share and Debentures to Total Working Fund Ratio	94
4.16	Return on Loan & Advance Ratio	96
4.17	Credit Risk Ratio	99
4.18	Co-efficient Correlation between Deposit and Total investment	100
4.19	Correlation between Deposit and Loan & Advance	101

LIST OF FIGURES

Figures	Title	Page
4.1	Deposit, Loan & Advance and Investment on Nepal SBI Bank Ltd	70
4.2	Deposit, Loan & Advance and Investment on Nepal Standard Chartered Bank Ltd	74
4.3	Deposit, Loan & Advance and Investment on Nabil Bank	78

ABBRIVATION

C.V	:	Coefficient of Variance
CAPM	:	Capital Assets Pricing Model
CBs	:	Commercial Banks
CD	:	Certificate of Deposit
CML	:	Capital Market Line
CP	:	Commercial Paper
CMS	:	Capital Market Securities
DPS	:	Dividend Per Share
NBL	:	Nabil Bank Ltd
F.Y.	:	Fiscal Year
GDP	:	Gross Domestic Product
Gvt	:	Government
HMG	:	His Majesties Government
i.e	:	That is
ICFAI	:	Institute of Charter Financial Analysis
IPS	:	Investment Policy Statement
Ltd.	:	Limited
MBS	:	Masters of Business Studies
MPS	:	Market Price Per Share
NBBL	:	Nepal Bangladesh Bank

NEPSE	:	Nepal Securities Markets
NIBL	:	Nepal Investment Bank
NPA	:	Non Performing Bank
NRB	:	Nepal Rastra Bank
NSBL	:	Nepal SBI Bank
Pvt.	:	Private
Rs,	:	Rupees
S.D	:	standard Deviation
SCBNL	:	Nepal Standard Chartered Bank
SEBO/N	:	Securities Exchange Board of Nepal
SML	:	Securities Market Line
T.Bills	:	Treasury Bill
T.U	:	Tribhuvan University
VAR	:	Value at Risk

CHAPTER- I

INTRODUCTION

1. BACKGROUND OF THE STUDY

1.1 CONCEPT AND MEANING OF BANK

The Business of a modern day bank is not confined in borrowing deposits and lending advance only, it performs a host of other financial activities, which has immensely contributed to achieve industrial and commercial progress of every country. It deals with a variety of activities like deposit, exchanging cheques, drafts, hundi, credit cards and other bills of exchange. Similarly, modern bank provides the facility of insurance, safe locker, letter of credit etc. Today banking is an industry in change rather than being something in particular, it is continually becoming something new offering services, merging and consolidating into much larger and more comprehensive business, adopting new technologies that seem to change faster than most of us can comprehend, and facing a new changing set of rules as more and more nations cooperate to regulate and supervise the banks that serve their citizens. Nowadays, the term bank is generally understood as an institution that holds a banking license. Banking licenses are granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and providing loans. Banks have a long history and have influenced economic and politics for centuries.

A bank is business establishment that safeguards people's money and uses it to provide loans and investments. (The world encyclopedia,1996:91)

In brief, bank can be described as financial intermediary between the depositor and credit seekers. Bank is one of the most heavily regulated business in the world. No one can start a bank without the government's approval.

1.2 STANDING AT THE NEPALESE ECONOMY

It has been known for long that banking sector is the lifeline of a nation and its people. Commercial Banks are an integral part of the economy in all countries. Outside the commercial Banking realm, there are several financial institutions that affect financial operations in a country. The place of commercial Banks in financial system is more significant to play an increasingly dynamic and vital role in the economy of the least developed countries like ours, which provides economic and financial intermediation in the economy. Prior to the establishment of the Nepal Bank Limited; there was no organized financial institution in Nepal. During the primeministership of Ranodip Singh around 1877 AD a number of economic and financial reforms were introduced. The establishment of the Teejarath Adda was the outcome of that reform. In the overall Development of the Banking system in Nepal the Teejarath Adda may be regarded as the father of modern Banking institution and for quite a long time it tended a good service to government servants as well as to the general public. However the installation of "Kausi Tosha Khana" as a Banking agency during the regime of king Prithivi Narayan shah could also lay claim to be regarded as the first step towards initiating Banking Development in Nepal. (Origin of banking sector, Nepalibanking sector. blogspot. com 2011/04)

The inception of Nepal Bank Ltd (NBL) in 1937 was a landmark in the field of Banking and financial sector in Nepal. It was established under special Banking ACT, 1936 having elementary function of Commercial Bank as a semi government organization, the central Bank named as the Nepal Rastra Bank (NRB) was established in 26th April 1955 with an objective of supervising, protecting and

directing the function of commercial Banking Activities. Another commercial Bank fully owned by the government named as Rastriya Banijya Bank (RBB) was established in 1966. Later on large number of commercial Banks have been come into operation till date.

The concept of financial institution in Nepal came into existence before sixty years in 1994 BS, first commercial Bank, Nepal Bank limited was established under the Banking ACT 1993. The government provided 51 % of the Bank and the promoters shared the rest 'Nepal Rastra Bank, the central Bank emerged in 2013 BS under 'Rastra Bank ACT 2012' since than, it has been providing policies and guidance to the financial sector in one hand and monitoring and controlling them in the other. Realizing the need of adequate Banking services for the integrated and speedy Development of industrial sector, Rastrya Baninjya Bank came into existence in 2022 BS with 100% government equity.

After establishment of Agricultural Development Bank in 2024 BS, growth of Banking institution remained almost stagnant till 2040 BS. No new Banks opened in that period. Some branches of previously established Bank were extended. Liberalization policy of government in 2038 BS allowed private sectors to open joint venture Banks in foreign collaboration. Nepal Arab Bank limited became the first commercials Banks to register under new arrangement. The Bank started its operations since 2041BS. Its foreign partner was Dubai Bank limited, UAE and Nepalese promoters. Nepal Indosuez Bank limited and Grind lays Bank limited were other joint venture Banks established after wards.

2. COMMERCIAL BANKING ACTIVITIES

2.1 Origin of the Banks:

In the past, Bank used just to accept deposits form the savers of money (surplus units of the society) and give loans to the users of money (deficit units of the society) Savers of money are those units whose earning exceeds expenditure on real assets (land, building, cloth, food etc.) and users of money are those units whose expenditure on real assets exceeds their earnings. In such a situation, deficit units sell their securities /IOUs (I OWE YOU) to surplus units. These securities are financial assets. If entire income of a unit matches with investment on real assets no financial assets are created.

The evolution of Banking can be traced back to the era when the use of metallic coins as the media of exchange of goods and services began. Storage of metallic coins was a serious problem for the common people. Because of the danger of theft and robbery, people started leaving gold and silver and metallic coins in the custody of some reputed person a wealthy merchant or a money changer. The custodian had a strong box and other means of safe keeping. He offered this service as a favors for his friends or made a charge for it. The depositor had to go personally to custodian for the withdrawal of his money. But this practice was found to be inconvenient. How did the use of word Bancus become popular? The origin of “Bank” is traced to a Latin work “Bancus” which means a bench. European money-lender and money-changers used to transact their business at bench at benches or tables. They followed the practice of receiving gold and other metals as deposits and issuing receipts. The bench or table used by the trader in money was the symbol of the business of Banking or dealing in money. The success or failure in trading was associated with his bench. When a Banker failed, his bench used to be destroyed by the people. (Dahal B., 2002)

2.2 ORIGIN AND GROWTH OF BANKS IN NEPAL.

The growth of Banking in Nepal is not so long in comparison with other developing or developed country, the institutional Development in banking system of Nepal is far behind Nepal had to wait for a long time to come to the present Banking position. The stepwise Development of Banking in Nepal can be narrated as follows.

2.2.1. NEPAL BANK LTD.: Nepal Bank Ltd (1994 30th Kartik) and was established under the Nepal Bank ACT 1994 (B.S). Its initial authorized capital was 10 million rupees and issued capital was 25 lac and paid up capital was 8 lac 42 thousand.

2.2.2. NEPAL RASTRA BANK LTD: The Nepal Rastraya Bank ACT 2012(1956), Nepal Rastraya Bank was established in 2013(B.S), Baishak 14th, but this ACT has been replaced and the Nepal Rastraya Bank ACT 2058(B S) has been upcoming.

2.2.3. RASTRAYA BANIJYA BANK: Rastraya Banijya Bank was another important Bank established in Nepal. The Bank was established in the government sector in 2002 BS. After enacting the commercial Bank ACT 2031(BS), both the Baninjya Bank ACT 2020 and the Rastriya Baninjya Bank ACT 2021 (1965) were replaced.

2.2.4. AGRICULTURE DEVELOPMENT BANK.

Under the agriculture Development Bank ACT 2024(BS), the agricultural Development Bank was established on 7th Magh 2024(1968),. Prior to the establishment of ADB, a cooperative Bank was established to meet requirement of fund in the agriculture sector. But latter on this cooperative Bank was converted into Agriculture Development Bank (ADB).

2.2.5. THE MODERN PHASE OF BANKING DEVELOPMENT:

The process of the Development of Banking system in Nepal was not satisfied up to 2040(BS). Nepal was observing the event that was taking places in the world also. Nepal was deeply studying and searching what sorts of programs, policies, law and regulation should be brought into the practice. The country can't changes it status by using only its own capital in the country without importing the new technology from foreign country Accordingly, law and policy have been enacted by the state to encourage the foreign investment on Banking sector . As a result of it the Development of the Banking system started in Nepal. The competition began to grow. The Banks began to offer their valuable service to the people through new technology. This was the great significant event. Thus, some Banks were opened on the joint investment basis. Brief accounts of such Banks are as follows.

1. NABIL Bank Limited ,2041(BS)
2. Nepal Investment Bank Ltd.2042.(BS)
3. Standard Chartered Bank Ltd.2044(B S)
4. Himalayan Bank ltd 2049(BS)
5. Nepal SBI Bank limited.2050 (BS)
6. Nepal Bangladesh Bank ltd 2051(BS)
7. Everest Bank Ltd 2051 (BS).
8. Nepal Credit and Commerce Bank limited. (Renamed as NCC on 10 September 2002)
9. NMB Bank Ltd. 2065(BS)

In addictives to this there are also other commercial Banks opened in Nepal. Those Banks are as follows.

1. Lumbini Bank ltd, Narayanghat.
2. Kumari Bank ltd, Katmandu.
3. Machapuchre Bank ltd, Pokhara
4. Laxmi Bank ltd.
5. Siddhartha Bank ltd

Hence there are so many commercial Banks in operation in Nepal till date operating with their main objectives of carrying out activities under the Banking and Financial Institution related Act 2060 (BS), the Nepal Rastraya Bank ACT 2058(BS). The company ACT 2053 (BS) and Contract ACT 2056.

After the restoration of democracy in Nepal, there is tremendous Development in banking sectors. Different types of banking activities are being operated. It has played positive role in the economy activities. Till now apart from Commercial Bank five Rural Development Banks are in operation in Nepal. They are as follows.

- Eastern Rural Development Bank ltd.
- Far Western Rural Development Banks in Dhangadi.
- Western Rural Development Bank Ltd Butwal.
- Mid Western Rural Development Bank Ltd.
- Middle Rural Development Bank Ltd.

The main objectives of these Banks is to uplift the living standard of the people by providing them the necessary training and Banking services and providing loan with out security in group basis as well as personal basis to operate an income generating business, these Banks are established according to the Rural Banks Financial System pursued by the government of Bangladesh with the objectives of providing loan to the poor people who are deprived of the institutional loan facilities due to the lack of reasonable security and guarantee. The Rural Development Banks have

their own fundamental concepts every man has his own characteristics and skills. The Rural Development Banks have a concept. It can bring the poor class of people in the level of respectable living standard providing the opportunity to the talented people and oppressed to increase the income and create the productive poverty.

2.3 Factor Affecting the Banks Business

1. The directives issued by Nepal Rastra Bank particularly with regard to recognition of interest income, loan loss provisioning and single borrower and group exposure limits are binding guidelines for Banks and hence are bound to have impact on the income of the Banks in the short run.
2. Funds management has become a challenge for the Banks with increasing lack of opportunities for profitable investments.
3. Persistent slackness in economic activities has adversely affected the recovery of investment. Incomes of the Banks have been affected by this.
4. Crisis of confidence witnessed in the business community on account of the prevailing environment may limit additional lending opportunities to a greater extent.

2.4 Development of Commercial Bank in Nepal.

Like other countries goldsmiths, merchants and moneylender were the ancient Bankers of Nepal Teejarath Adda established during the tenure of the Prime Minister Randoddip Singh (BS 1993) was the first step towards the institutional Development of Banking in Nepal. Teejarath Adda did not collect deposits from the public but gave loans to employees and public against the bullion. Banking in modern sense started with the inception of Nepal Bank Limited (NBL) on BS1994.

Nepal Bank Limited had a Herculean responsibility of attracting people toward banking sector from pre-dominant money lenders' net and of expanding Banking services. Being a commercial Bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban centers. Government however had onus of stretching Banking services to the nook and corner of the country and also managing financial system in a proper way. Thus, Nepal Rastraya Bank (NRB) was set up on BS 2013 as a Central Bank under Nepal Rastra Bank ACT 2012 B.S. It has been functioning as the government's Bank and has contributed to the growth of financial sector. The major challenge before Nepal Rastra Bank today is to ensure the robust health of financial institution. Accordingly, NRB has been trying to change them and has introduced a host of prudential measures to safeguard the interest to the public. NRB is yet to do a lot to prove them an efficient supervisor. NRB really requires strengthening their policy making, supervision and inspection mechanism. Integrated and speedy Development of the country is possible only when competitive Banking service reaches nook and corners of the country. Keeping this in mind, government set up Rastriya Banijya Bank (RBB) in B.S 2022 as a fully government owned commercial Bank. As the name suggests, commercial Banks are to carry out commercial transaction only. But commercial Banks had to carry out the functions of all types of financial institutions. 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 to provide finance for agricultural sectors 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 centre was renamed and its functioning was converted to an organized stock exchange. NEPSE opened its trading floor on 13 January 1994. With the establishment of RBB and ADB, Banking service spread to both the urban and rural

areas. NRB also gave incentive to NBL to expand their branches to Rural areas this helped the common people reduce their burden of paying higher rate of interest to lenders. The inception of Nepal Arab Bank limited (renamed as NABIL Bank limited since first January 2002) in B.S 2041 B S) as a first joint venture Bank proved to be a milestone in the history of Banking. NABIL Bank gave a new ray of hope to the sluggish financial sector. NABIL launched its operation with a marketing concept, i.e. customer is the king in the market. NABIL started knocking the doors of customer breaking than trends of knocking the door of a Bank by a customer. NABIL seems to have truly followed the definition of Customer given by mahatma Gandhi,” A customer is the most important visitors on our premises. He does not depend on us. We are dependent on him. He is not an interruption on our business. He is purpose of it. He is not outsider on our business. We are not doing him a favors by serving him. He is doing us a favors by giving us an opportunity to do so.” The very marketing concept of NABIL forced the Bank in operation to be more customers oriented and led the influx of commercial Banks. Having observed the success of NABIL based on marketing concept and also because of liberal economic policy adopted by the successive governments, following commercial Banks came into being: Which in TABLE A.

TABLE-A
List of Commercial Bank

SN	Commercial Bank	EST Year	Head Off	Branc
1	Nepal Bank ltd	1994/07/30	Kathmandu	153
2	Rastraya Baninjya Bank	2022/10/10	Kathmandu	135
3	Agriculture Develpoment Bank	2024/10/07	Kathmandu	228
4	Nabil Bank Ltd	2041/03/29	Katmandu	50
5	Nepal Investment Bank Ltd	2042/11/26	Katmandu	41
6	Standard Chartard Bank Nepal Ltd	2043/10/16	Kathmandu	15
7	Himalayan Bank ltd	2049/10/05	Kathmandu	41
8	Nepal SBI Bank ltd	2050/03/23	Kathmandu	56
9	Nepal Bangladesh Bank ltd	2050/02/23	Kathmandu	20
10	Everest Bank ltd	2051/07/01	Kathmandu	45
11	Bank of Katmandu ltd	2051/11/28	Kathmandu	42
12	Nepal Credit and Commerce Bank	2053/06/28	Siddhartha	87
13	Lumbini Bank ltd.	2055/04/01	Lumbini	17
14	Nepal Industrial and Commercial	2055/04/05	Biratnagar	36
15	Kumari Bank ltd.	2057/12/21	Kathmandu	29
16	Machapuchre Bank ltd.	2057/06/17	Pokhara	40
17	Laxmi Bank ltd.	2058/12/21	Birjung	22
18	Siddartha Bank ltd.	2059/09/09	Kathmandu	25
19	Global Bank Ltd.	2063/09/18	Kathmandu	30
20	Citizens Bank International Ltd.	2064/01/07	Kathmandu	33
21	Prime Bank Ltd.	2064/06/07	Kathmandu	24
22	Sunrise Bank Ltd	2064/06/25	Kathmandu	45
23	Bank Of Asia Nepal Ltd	2064/06/25	Kathmandu	29
24	Develpoment credit bank Ltd	2001/02/01	Kathmandu	72
25	NMB Bank ltd	2064/01/25	Kathmandu	21
26	Krist Bank Ltd	2065/01/24	Kathmandu	51

Source: Nepal Rastra Bank

2.5 Function of commercial Banks

1. The credit (loan) function
2. The payments (transaction) function
3. The insurance (risk management) function
4. The security Banking (security underwriting) function
5. The merchant banking (temporary stock investment) function.
6. The thrift (savings) functions
7. The investment /financial planning function
8. The real estate and community Development function
9. The cash management functions

2.6 Banking Services.

Banking industry offers a wide range of services encompassing the needs of public of different walks of life. Hence, different types of Banks emerged in the Banking industry concentrating on a special sector. This is the age of specialization. On the basis of functions, Banks can be classified as under the functions of commercial Banks are directly related with the people and institution. The commercial Banks are important Banks. Its functions are very attractive for people. Although there Banks are truly inspired with the objectives of earning profit, there commercial Banks are also established, to accelerated common people's economic welfare and facility, to make available loan to the agriculture, industry and commerce and to provide the Banking services to the public and the state in Nepal, the commercial Banks perform the following functions.

1. To Accept deposit:

Among many functions of the commercial Bank, acceptance of deposit is one of them the Banks allows for opening the three types of account. They are fixed deposit, saving deposit and current deposit account. People can collect their money in one of the three as the earned. But the interest is given on saving and fixed deposit account interest is not to those who deposit money in the current account. The customers can withdraw their money from their account according to their need. The commercial Banks perform the important function of accepting all sorts of deposit. It earns profits by investing that money in another place.

2. To provide loan:

Another function of the commercial Bank is to provide loan. A commercial Bank provides loan to person, company and institution etc. A Banks is capable to gain benefits in its Banking Developments by receiving the interest as per law and internal policies it provides loans in different terms and conditions provides the loan by accepting the security of debtors . A Bank can flow the loan against a third person guarantee or with the pledge of the third persons. A Bank provides loan on the basic of agreement or deed of loans. It provides loan on the basis of deed securities.

3. Agency functions.

The commercial Bank used to provide agency function as following ways

- * A Bank makes payment after taking commission for the cheques, draft, and bill of exchange presented by the customers.

- * A Bank, on the request of its customers, transfers the money from one place to another place by draft mail transfer or telegraphic transfer.
- * A Bank, on the request of its customers, buys and sells a company's shares and governmental security bonds.
- * A Bank collects the interest on governmental bond and the profit on share from the company for its customers.
- * A Bank also pays rent of the house, permission of the insurance and income tax etc on behalf of its customers.

4. General utility function.

A commercial Bank discharges the function of general utility also. These functions are as follows.

- * If the central Bank has given the permission to carry out the transaction of foreign currencies, the commercial Bank exchanges the foreign currency earned by his customers.
- * A Bank issues travelers cheques in the customer's name and communicates the credit information or notices for his customers.
- * A Bank provides lockers to its customers to keep valuable metals, ornaments, and documents safely. The customer keeps one of the keys of lockers with him. If the customer's such valuable goods are kept under the Bank's custody such safe boxes are called safe deposits.
- * A Bank gives economic and professional advice to its customers.
- * A Bank collects important commercial information and data for his customers.

5. Oversees trading services.

Another function of commercial Bank is overseas trading services for its customer's Recognition of overseas trade has led modern commercial Banks to act specialization in the finance of the foreign trade and some Banks in some countries have taken interest in export house and factoring organizations. Assisted by Banks affiliated to them in overseas territories, they are able to provide a compressive network of services for foreign Banking business, and many transactions can be carried out from start to finish by a home Bank or its subsidiary. In the places where Banks do not directly represent, by such affiliated undertakes, they have working arrangement with correspondents, so that the Banks are in a position to under take foreign Banking business in any part of the world. The Banks provide more than just a means for the settlement of debt between trades both at home and abroad.

6. Information and other services.

The commercial Bank provides some information and other services to its customers, which is very useful. Some Banks produce regular bulletin on trade and economic conditions at home and abroad. In this way, it is possible to establish new avenues of business purpose, confidential opinions on the financial standing of companies, firms, industries at home and overseas. Hence these types of function of the commercial Banks are really laudable.

3. Role of joint venture bank in Nepal

The concerned bank Nepal Standard Chartered Bank Ltd, Nabil Bank Ltd and Nepal SBI Bank are joint venture bank. In this matter role of joint venture bank cannot be ignored in this study. In global prospective, joint venture bank is mode if trading through partnership among the nation and a form of negotiations between two or more enterprise for carrying out a specific operation. There for the main purpose of joint venture is to joint economic forces in order to achieve desired end. Under joint venture basis to operate a business organization, there should be at least

two partners from the different countries. The primary objective of joint venture bank is to earn profit by investing or granting the loan and advantage to the people associate with trade, business, industry etc. That means they are required to mobilize their resources property to acquire profit. “A joint venture is forming of two forces between two or more enterprise for the purpose of carrying out a specific operation.

Nepal government budget for the FY 1984/85 provided the following justification for the allowing the selling up joint venture bank in the following words. “ At present, the financial institution of the country have been effortful to mobilize resources. On one hand the major part of the few individual where as the small traders and entrepreneurs are facing difficulties to receive loans on the other. The only solution to this problem is to encourage competition in the banking sector. Therefore a policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted. This will promote completion among bank where by the client will get improved facility. In addition, the share of these new banks will also be sold to the general public and while distributing the share. it will be ensure that the ownership in spread out the maximize extend possible.

4. PROFILE OF THE SAMPLE BANK.

4.1. Nepal SBI Bank Ltd.

Nepal SBI Bank Ltd (NSBL) is the first indo-Nepal Joint venture in the financial sector sponsored by thee institutional promoters, namely State bank of India (SBI), Employee Provident Fund (EPF) and Agriculture Development Bank Ltd.(ADBL) through a Memorandum of Understanding signed on 17th July 1992, NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28,1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs 12

Cores and was licensed by Nepal Rastra Bank on July 6,1993 under license no NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from July 7,1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increase to 511. Under the Banks & Financial Institutions Act, 2063, Nepal RAstra Bank granted fresh licenxe to NSBL classifying it as an “A” class licensed institution to Rs 200 Cores, Rs 186.93 Crores and Rs 186.93 Crores, respectively. In Trens of the Technical Services Agreement concluded between SBI and the Bank, SBI provides managemdnt support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team VIZ. Central Management Committee (CENMAC) consisting of the Mamaging Director, Chief Operating Officer, Chef Financial Officer and Assistant Gendral Manager (Cridit) oversees the overall banking operations on the bank. ADBL divested its stake in the Bank by selling its entire 5% promoter share ot SBI on 14th june,2009. Consequently, the bank’s corporate status has undergone change from its previous status as a joint venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent os held by EPF and thirty percent os held by the general public.

The Bank has fourteen branches in various parts of the kingdom. Its corporate office located is Hattishar, Katmandu and main branch office in Durbar Marg, Katmandu. It has another branches located in New road, and embassy of India extension counter and remaining are outside of the valley i.e. Biratnager branch, Birtamode branch, Bhairabwa branch, Pokhara branch, Janakpur branch, Rampur branch, Rural branch, Birtamode Rural branch, Sishwa Rural branch, Pokhara extension counter, Dhahran extension counter. The Bank has utilized advance computerized techniques in its operation. The software in the use is bancs-2000’ developed by in forces technology, India. The branches within the valley perform their routine

works from Monday to Friday five days a week. Apart from the conventional facilities, other facilities made available by the Bank listed below.

1. It provides loan and advance by means of term loans as well as working capital.
2. It provides its facilities of opening letter of credit and guarantees.
3. It provides remittance facility to various part of the world. It is going to introduce SWIFT transfer system in near future.
4. It provides merchant Banking facilities.

4.2 NABIL Bank Limited.

Nabil Bank Ltd is Limited (EBL) was incorporate in 2041 B.S. (1984 AD) as a first joint venture bank by the joint investment of Dubai Bank and Nepales promoters. Nepalese investment include government organization and punlic owing 20% ana 30% of the total capital respectively and other half portion of capital is born Dubai Bank ltd later on the share owned by Dubai Bank ltd were transferred to emirates Bank international ltd. After this National Bank of Bangladesh acquired 50% of share abd has become the promoter. Nepal Arab Bank ltd (Nabil) was registered in may 1984 A.D in department of commerence His Majesry's Government of Nepal. \Nepal Commenced its banking operation on 1984/07/16. Now it has the highest level of deposit and advance among all joint venture banks of Nepal. its currentits executive officer (CEO) is Mr Amit Chandra present .

The Head office of Nepal os situated at Kamaladi Kathmandu. it has altogether 42 branches at present. They are spread over in fifteen districtes of Nepal including urban and rural areas.

Share capital of Nabil BANK

1. Authorised Capital
2. Issued Capital
3. Paid up Capital

Share ownership of Nabil os shown

<u>Subscription</u>	<u>% Holding</u>
Local ownership	50%
Other licensed institution	6.15%
Other entities	10%
General public	30%
Other	<u>3.85%</u>
	100%

Services:

Nabil invest renders its institutional and retail client wide range of services some of which are delivered currently while others will be delivered in due course with required exploration & innovation and due approval received from the Regulartors as and when required, detailed as under:

1. Management of Public Offers/Futher Public offers

Nabil invest renders both its institutional and rental client services of managing public offer of share debentures bonds right issuance of securities

to existing shareholders/further public offer of securities etc to its clientele and has team of professional expertise to render quality services at competitive rates.

2. Underwriting

Nabil invest on selective basis post independent appraisal of proposals reviewed through its professional team is rendering underwriting related services to its clientele as SEBON has made it mandatory for all institutions going public to underwrite at least fifty percent of the securities on offer prior public issue.

3. Portfolio Management

The Clients can delegate all their investment management related decisions to a pool of corporate finance experts of Nabil Invest who in turn will use the vast pool of industry specific data collected and analyzed by its research unit for making investment for clients portfolio which focuses primarily on safety to principal investment along with maximization of returns to Clients, Nabil Invest will arrange to render services to a wider clientele as per their risk appetite and design their portfolios accordingly. The investors can utilize their time/energy saved in the process to focus on other more critical facets of life.

4. Registrar to Securities (RTS)

Nabil invest renders Registrar to Securities(RTS) related services to the valued shareholders of its institutional client and in the process keep on

improving quality & timely delivery of services. The major hitch in this nature of services by competing institutions.

5. Trusteeship Services

Institutions going for the public issuance of BOND/Debentures can reach Nabil Invest requesting them to act as Trustee of the investors at large and for investors under private placement basis who apply for the securities on offer. Nabil Invest will render Trusteeship services with due diligence to track and facilitate the investors with true and timely information as required by the provisions of Trusteeship Agreement entered with the Company issuing the securities.

6. Advisory Services

The client can make use of professional expert's advice given by Nabil invest to make informed investment decisions so that they have true picture to the industry and certain scrip in particular.

Further, Nabil Invest will also assist its Clients through its independent reports prepared on feasibility of certain Mergers & Acquisitions which will include the SWOT Analysis, valuation of equity of both firms, the conversion ratio, conclusion & recommendation etc.

In addition, Nabil will also assist its corporate clients in Capital restructuring of their institutions which allows them to meet their additional capital requirements for expansion and also have a proper debt-equity ratio to maximize returns with reduction in cost of capital.

7. Project Counseling

The client can take the services of Nabil Invest to evaluate the feasibility of new projects in the offering, to identify the growth prospects of existing maturing firms for expansion or to have an independent view regarding feasibility of some existing/ would be projects.

The professional advice given by Nabil Invest will assist the client to have a clear sense of direction for their future course of actions.

8. Loan Syndication

Nabil invest will use its existing relationship with other Bank/Financial Institutions to acquire required financial support for the financial closure of certain projects which it identifies as feasible and recommends for investment. The financial closure will be reached with either one institution or a syndicate of Bank/Financial Institutions depending on the size of projects and Bank/Financial Institutions.

9. Valuation

Nabil invest will make use of one or a combination of few standard valuation techniques applicable internationally to value the status of certain scrip as of certain specific date. This will assist the firm to identify their actual market worth and further assist them during the time of making specific strategic decisions like going for Mergers & Acquisitions, selling significant portion of company's scrip to some strategic partners through issuance of fresh equity of through divestment of existing stake etc.

10. Venture Capital/Private Equity

The research unit of Nabil Invest will keep on exploring and identifying various industry specific information like the growth prospects of certain firms both listed and unlisted, the current stage of life cycle of specific companies etc. Nabil invest will thus assist these firms in obtaining the required source of finance from the market either through venture capital for growth oriented companies listed on bourse or through private equity for unlisted companies reaching certain maturity stage. Further, Nabil invest will also be able to diversify its portfolio through investment in these institutions as per its requirements.

11. Assets Management Company (AMC)

Once SEBON issues Rules relation to operate if Mutual Fund with the provision that allows existing Merchant Bankers being promoted by the same SEBON on various schemes, will launch its services in accordance to cater the masses. The professional team of Nabil Invest will diversify the portfolio investment and maximize returns to the unit holders of various schemes by increasing the Net Assets Value (NAV) on its investments.

12. Other Services

Besides the services identified, Nabil Invest will always keep on exploring innovative products and service that matches regional and global standards and target to launch the same in customization with the local market with due approval taken from the Regulators, if & when required. Thus, Nabil Invest intends to cater wide clientele rendering Investment Banking related

services setting example and obtaining first mover advantage in the capital market of the country.

4.3 Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status the largest international bank currently operating in Nepal.

Standard Chartered Group employs 30,000 people in over 500 locations in more than 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. It is one of the world's most international banks, with a management team comprising 79 nationalities. The Bank is trusted across its network for its standard of governance and its commitment to making a difference in the communities in which it operates.

An integral part of the only international banking Group currently operating in Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country. With 11 points of representation (7 Branches) and 9 ATMs across the Kingdom and with over 300 local staff, Standard Chartered Bank Nepal Ltd. is in a position to service its customers through a large domestic network. In addition to which the global network of Standard Chartered Group gives the Bank the unique opportunity to provide truly international banking in Nepal.

Standard Chartered Bank Nepal Limited, offers a full range of banking products and services in Wholesale and Consumer banking, catering to a wide range of customers from individuals, to mid-market local corporates to multinationals and large public

sector companies, as well as embassies, aid agencies, airlines, hotels and government corporations.

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts

PRODUCTS & SERVICES

Offered by the Bank are as follows:

Consumer Bank

- Current, savings, call and term deposit accounts in Local & Foreign currency
- Fund Transfer Services - Local & International - Drafts, SWIFT
- Credit Card Services - Issuance & Acquiring
- 24 Hour ATM services - SCBNL debit card, VISA and Master Card
- Safe Deposit lockers
- Foreign Exchange Services - Issuance/purchase of Travelers Cheques
- X-tra Banking - 365 days banking from Kantipath and Lalitpur Branches
- Priority Banking; Home Banking
- Auto Loan
- Home Loan; Home Advantage
- Personal Loan
- SMS Banking
- Corporate Employee accounts

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Wholesale Bank

- Trade Finance
 - Letters of credit: Issuance and acceptance
 - Guarantees: Issuance and acceptance
- Commercial Lending (Working Capital)
- Term Lending
- Loan Syndication
- Forward Exchange Rates
- Electronic Banking
- Cash Management
 - Operating Accounts
 - Quick Collection Services
 - Quick Payment Services
- Cheque writer

Corporate Social Responsibility

Standard Chartered Bank Nepal is a socially responsible corporate and recognizes its responsibilities to its staff and to the communities in which it operates. The Bank concentrates on projects that assist children, particularly in the areas of health and education and it has taken up various initiatives to benefit the community. 2 major initiatives in the area of health 'Living with HIV' and 'Seeing is Believing' have been undertaken by the Bank since 2003.

5. STATEMENT OF THE PROBLEMS.

The numbers of joint venture Banks are being increased in response to the economic liberalization policies of the government besides joint venture commercial Banks are also being registered by the Nepalese promoters. These institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders and entrepreneurs. Most of the business organization along with Banks are facing different problems due to the lack of political stability and unrest. Bank has being facing the considerable pressure to lower the lending rates, which affects the profitability adversely. The problems of the study refer the comparative study of the Nepal SBI Bank, Nabil Bank and Standard Chartered Bank. Although the study is not compressive as expected, attempts are made to sort out the answer for the following question.

1. How far Nepal SBI Bank, Nabil Bank and Standard Chartered Bank have been able to shift the monetary resources from the savers to users?
2. What is the deposit and investment condition of three JVB?
3. What are the main problems facing by the three firms in their deposits and investment?

6. OBJECTIVE OF THE STUDY.

The basic objectives of the study is to find out the ways of utilizing the surplus deposits funds in the economic development of country. It analyses the Deposit and investment of three joint venture Banks for the past Five years. It is study about the Deposit and investment of three firms (Bank) by studying the detail data. It tries to evaluate the situation of deposit and investment of NSBIBL, NBL and NSCBL

The main objectives of this study are as follows:-

1. To study deposit position of the banks for last five years,
2. To review the investment positions of the banks under study,
3. To analyze the gap between deposits and investments;
4. To draw the conclusions and make suggestions and recommendation.

6. SIGNIFICANCE OF THE STUDY.

The study is important to know how the banks are utilizing their deposits. The position of the banks under study with regards to loan and advances and investment can be determined which makes clear about their performance and helps in making any kind of deposit regarding these banks. The study evaluates the deposits and investment by using of Ratio Analysis which helps the concerned companies to formulate strategies to face the increasing competition and to achieve the targeted objectives. Similarly the aim of the study is to identify the deposit and investment pattern. It provides a useful feedback, remedial actions, good planning and takes appropriate division to the policy makers of the selected organization, governments and also the other concerned field. Likewise the research will provide required information to the persons and parties such as general readers, decision makers, brokers traders, stock holders financial agencies, business man and general public and also useful for teacher and students of the particular subjects and the firms and others those having interest on financial management.

7. LIMITATIONS OF THE STUDY.

There are about nineteen Banks in different sectors. They are competing with each other.

Following are the limitations of the study made.

1. The study is for fulfilling the partial requirement of MBS course of T.U Nepal.
2. The study covers the analysis of only seven years data
3. The whole study will be based on the secondary data collected from central office, Nepal SBI Bank Ltd., Nabil Bank Ltd. and Standard Chartered Bank Nepal Ltd. Therefore the limitation of data derived from financial statement exists. It focuses only the deposit and investment position and doesn't cover other aspects of activities.
4. This study is limited to the study of only three joint venture Bank only.
5. Basically ratio analysis is used to evaluate the deposit and investment of sample Bank. Therefore the limitations of ratio analysis exists i.e. the qualitative aspect of management is not evaluated.
6. Due to the difficulties of data available only ordinary and simple techniques have been used for the analysis of the data.

7. CHAPTER PLAN

This research has been divided into five parts, which are as follows.

Chapter I: First parts deals and includes the background of the study, introduction of the study, focus of the study, statement of the problems, objectives of the study, significance of the study, limitation of the study, and plans of the study.

Chapter II: Second chapter includes review of the literature, which was obtained during the library research, theoretical review, and review of related studies.

Chapters III:Chapter third contents research design, population and sample, source of data, data collection and processing techniques, analysis of tolls.

Chapter IV: This part of the study includes a presentation and analysis of data.

Chapter V: Last parts of the study deals together with the summary of findings conclusion and recommendation.

CHAPTER II

REVIEW OF LITERATURE

1. INTRODUCTION

1.1 Review of literature

Review of literature begins with the conceptualizations of persisting theories and search of research studies in this topic. It deals with the existing volumes/situations of selected or similar topics. It eliminates the duplication of the topics. As far as possible, review of literature consist the past information, existing situation and the proposed research.

2. Review of Books

2.1 Conceptual review of Investment

F. Sharpe Willam, Gordon J Alexander, Jeffery, Balla, in their book "Investment" explain that Banks are such type 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.

Investment is the employment of funds with the aim of achieving addition income or growth in value. It involves the commitment of resources that have been saved or put away from from current consumption in the hope that same benefits will accrue in future investment involves long term commitment and waiting for a reward. The sacrifice takes place in the present and certain while the rewards come later and uncertain.

Gitman and Joehnk (1990) in their book “Fundamental of Investment” explain that Investment is any vehicle into which funds can be placed with the expectation that expectation that will preserve or increases in value and generated positive returns

Frank and Reilly(1990) in their book “Investment” explain that "An investment is the current commitment of funds for a period of time to derive a future flow of funds that wills compensate theinvesting unit for the time funds are committed, for the expected rate of inflation and also for the uncertainty in the future flow of the fund.

V.K. Bhalla and S.K. Tutesa (1983) in their book “Investment management” explain that, "There are basically three concept of investment

- Economist investment that is an economist's definition of investment.
- Investment in a more general or extended sense, which is used by "the man on the street", and
- The sense in which we are going to be very much interested namely financial investment.

Jerome B. Chone Edward, D Zinbarg and Arthar Zeiped (1995) in their book “Fundamental of Investment” explain that the word "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, 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.

Frank K. Reilly,(2004) in their business week “Theory and practice of investment Management” explain that investment in this words, "An investment may be defined 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 committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of funds."

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 investible funds.

H.D. Crosse says. in this regard "Lending is the essence of commercial banking, consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well-conceived lending policies and careful lending practices are essential if a bank is to perform its credit. Creating function effectively and minimize the risk inherent in any extension of credit."

Van Horn,James C(1998) in their book “Financial Management and Policy” explain that, "Investment policy fixes responsibilities for the investment disposition of the bank’s assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets.

I.M. Pandey,(1998) in their book “Financial management” explain that "Investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, the investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder's fund maximization. An Investment will all to the shareholder's wealth if it yields benefit in excess of the minimum benefit as per the opportunity cost of capital.

The decision of investment is very important because it influences the firm's growth in the long run affects. The risk of the firm requires the large amount of funds, which is difficult to make.

A commercial bank must invest its deposits and other funds to secured, profitable reliable and marketable sector, so that it can earn a reasonable 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 be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiency ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

Mr. Shakespeare Baidhya (1997) in their book “Banking Management” explain that "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. Moreover, risk in banking sectors tends to be concentrated in the loan portfolio.

When a bank gets into serious financial trouble its problem usually spring from significant amount of loan that have become un-collectable 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 and prudent in order to protect public funds.

Encyclopedia Britannica World Book I defines the word 'Investment', Investment is the use of money to earn income or profit. The term also refers to the expenditures of funds for capital goods-such items as factories form equipment, livestock. and machinery. Capital goods are used to produce other goods or services.

May people invest part of their income for financial gain. Others make investment to protect the purchasing power of their saving against raising prices.

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 equipment 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. Governments also issues bond to obtain funds to invest in such projects as the construction of dams, roads, and schools. All such investments involve a present sacrifice of income to get an expected future benefit. As a result, investments raise a nation's standard of living.

V.K. Bahlla in his study, "Investment management; securities analysis and portfolio management "explains the word 'Investment' as follows:

"The term economic investment has a rather precise meaning in the literature of economic theory. Typically, it includes net addition to the capital stock of society.

By capital stock of society is meant those goods, which are used in the production of other goods. He says it is a goods; societal, or aggregate point view. The definition implies that in society there are numbers of goods which are used to produce other goods and that these means have production are considered part of the capital stock of society. For a number of reasons, economists also include inventories as part of the capital stock. Thus, a net additions to the capital stock-an investment means an increase in building, equipment, or inventories over the amount of equivalent goods that existed, say, one year ago at the same time".

He further explains that the everyday usage of the terms investment can mean a variety of things, but to the man of the street is usually refers to money committed of same sort. He gives an example is, a commitment of among to a new car is certainly an 'investment' from an individuals point of view but these are in very general and very extended senses of the word since no rate of return is involved nor is a financial return or capital growth expected.

In his saying financial investment is a form of this general or extended sense of the term. It means an exchange financial claims-stocks and bonds, real estate, mortgage etc. the term financial investment is often used by investors to differentiate between the spud-investment concept of the consumer and the real investment of the businessman. He differentiates adn investment' between the ticketing and the constructing a new plant, the pawning of watch and the planting a corn.

V.K. Vhalla goes ahead mixing the investment with speculation gambling. And he shows the difference between speculations and gambling is; in gambling artificial and unnecessary risk are created whereas in speculation, the risks already existed and the question is simple who shall bear them.

Gambling is a far cry from the carefully planned research and scientific procedures, which underlines the best speculative practice. Speculation is a reasoned

anticipation of future conditions. It does not rely upon here say or labels. It attempts to organize the relevant knowledge as a support for judgment and it is as legitimate and moral as any other from of risk task taking business activity.

Investment usually involves putting money into an asset, which is not necessarily marketable in other to enjoy a series of return the investment is expected to yield. One the other hand, speculation is usually a short-runer phenomenon. Speculators tend to buy assets with the expecting of a profit that can be earned from a subsequent price charge and sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future. Speculators, on the other hand, are usually based on the expectation that some change will occur.

2.2 Conceptual review of Deposit

Commercial bank act 2031 B.S. (1974), defines 'Deposit' as amount deposited in a current, saving or fixed accounts of a bank or financial institution. People in general, the businessmen; the industrialists and other individuals deposit money in a bank. Actually such amount is the main sources of capital for commercial bank. Bank flows such amount as loan and invests in different sectors to earn profit. Usually, a bank accepts three types of deposits. They are current, saving and fixed deposits. But in the other countries we find more than three deposits. In Nepal, bank grant permission to their customers to open three types of accounts under various terms and conditions. This classification is made on different theoretical and financial basis. Therefore, the deposits of bank are classified on the following basis:

- Demand Deposit
- Saving Deposit
- Fixed Period Deposit

It is fair deduction that no person or body, corporate or otherwise, can be banker who does not (a) take deposit a/c (b) issue and pay cheque (c) collect cheques from his customers. Here, All functions are related with the acceptance of deposits. Therefore, accepting deposits by bank is the oldest function of bank. A bank accepts deposits in three forms viz current, saving and fixed a/c.

Saving deposit is one of the deposits collected from small depositors and low-income depositors. The bank usually pays small interests to depositors against their deposits.

Current account is also known as demand deposit. Under this, any amount may be deposited. There are no restriction regarding number and amount of withdrawals as country to saving a/c. The bank does not pay any interest on such account but charge small amount on the customers having current account.

A fixed deposit is one where a customer is requested to keep a fixed amount with the bank for specific period, generally by those who don't need money for stipulated period. The bank pays a higher rate on such deposits.

3. Review of Articles

Many Researches has analyzed their fund mobilizing view and funding in their research paper in this subject through deposits and investments policy of commercial banks.

Twenty-five percent decrease in the liquidity position of commercial banks. The liquidity position of commercial bank has decrease by about twenty-five percent. According to the governor of NRB Dr. Tilak Rawal, last year the liquidity of the commercial bank was Rs. 480,000.00 million, but now it is only Rs. 38.000.00

million. In this condition, capital drains seem responsible and political condition also responsible. The president of Nepal bankers association Mr. Narendra Bhattarai has expected that the expected that the liquidity position of commercial bank has decreased by twenty five percent in comparison to the last year. Mr. Bhattarai requested to NRB to implement monetary policy in the current station of controlling inflation and decreasing liquidity. Dr. Tilak Rawal said that NRB has implemented flexible monetary policy and although continuing the policy, because of the BPO is negative, it should be careful and should be implement the monetary policy by balancing. But economist Dr. Badri Prasad Pokhrel has suggested that if demand is high, it should increase the liquidity.

"Scope of Inter-Bank Business in Nepal" Mr. Sundershan Prasad Adhikari, Deputy director of NRB has a viewpoint in scope of inter Bank Business in Nepal". Interbank market in the mainstay of banking business. The inter bank market serves as a wholesale market for banks. The inter bank market serves as a wholesale market for banks. The inter bank market has come up to enable banks to fund liquidity their growing fund requirements. Accepts during times of tight liquidity situation, fund is always available at a price. Inter bank transaction are conducted not only with in the domestic money market, but it can be done in all financial cities Tokyo, London, New York, Hong Kong, Dubai, Paris, Frankfurt and others. Due to time differences in financial center, the markets are open for about 24 hours. The marketers start its business rights from Tokyo, Followed to Singapore, Hong Kong and Nepal then to Europe, Canada and America and again start from Tokyo from next day.

Types of interbank transaction.

He has presented two types of transaction in the article.

1. Deposit (Placements)/ Loans (Borrowings)
2. Foreign exchange

He has presented about interbank dealing operation- "The Dealers deal with each other as per the guideline of the NRB and prescribed by their own management. For the smooth operations of inter banks transaction, foreign exchange and Money Dealer's Association of Nepal (FEDAN) has also sets rules and regulation for the member's banks. A few aspects of Inter Banks Dealing Operation are presented here under.

- Position
- Nostro Accounts
- Inter - Banks Deposit (Placement)
- Inter - Banks Sales and Purchases

He has explain about function of inter banks market and looking ahead - "the inter banks market works as intermediaries function in the flow of funds. It enables banks to take speculation and/or Hedging position against interest rate and exchange rate movements. A major function of inters banks market is to enable banks to cope up with the lumpiness of wholesale, sized deposits and loans and also plug up holes in the balance sheet. Unwanted deposits can be laid of to other needy banks Funds neededto support leading can be bid for in the inter - bank market. Inter Bank market gives confidence that funds to meet balance sheet contingency. In addition, the inter - banks enable the risk lending to be spread among other banks.

The size and volume of Nepalese inter bank transaction is very small. Out of different commercial banks, only three banks are foreign exchange sellers while others banks are purchasers in the inter banks business. Likewise, only one bank is accepting foreign except deposits from other banks. Forward sales contract of foreign exhcnage for customers are yet to be started by country's larger two old banks. These two banks, which have mobilized more than 50 percent of deposits and extended about 60 percent of loans, have also yet to start, interbank placement

transaction. A limited number of heading tools like; spot purchases and sale of foreign exchange and forward sales of foreign exchange to customers business are taking place. In ever few case foreign exchange swaps contracts were done between few banks. Recently, in view to takes benefit from prevailing higher rate of interest in loan term placements, NRB has permitted commercial banks entering in to interest in loan rate swap contracts. It is hoped that after the handover of the management of two larger old banks to the international experts, the inter bank market will be more efficient and competitive. Without active participation of these two banks in the interbank, the interbank business in the country could not work properly.

Mr. Bhatta, in his article "Financial policies to prevent financial crisis" has given more emphasis on Nepalese financial market sector. He has mentioned the financial crisis occurred in China, Mexico, South Asia, Russian Federation Ecuador and Brazil & Argentina. This crisis affected all these economic by posing negative effects in their real output. He had also focused on Nepalese financial market, which is directly affected by the national and international events. The most effected events was September 11 incident in U.S.A., have added more to the fragility in the global financial market. In present context in many part of the world, the move towards liberalization is getting its momentum on one hand and the process economic development is being threatened due to various unanticipated incident on the other. He has defined a financial crisis is a description to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

He has given light on dynamics of financial crisis dividing it into three stages. Also he has suggested the policies to prevent financial crisis.

- a. Prudential Supervision

- b. Accounting Standards & disclosure requirements
- c. Legal and judicial system
- d. Monetary policy and price stability
- e. Exchange rate regimes and foreign exchange reserves
- f. Capital controls
- g. Restriction on foreign denominated debt
- h. Reduction of the role of the state owned financial institution
- i. Encouraging market based discipline (Mr. Bhatta, 2001:57)

The article entitled "Role of foreign Banks in Nepal" of Mr. Chopra concluded that joint venture banks are playing an increasing, dynamics and vital role in the economic development of the country. This will undoubtedly increase with time.

Radheshyam Pradhan has done a research for which he carried out a survey of 78 enterprises. Through his research entitled, "Financial management practices in Nepal". He found some of the major feature of Nepalese financial management. According to him "the most important finance one appeared to be working management. While, the last important one appeared to be working capital management. While, the last important one appeared to be maintaining good relation with stockholder. The Finding reveals that banks and retained earnings are two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks whichever offers best interest rates. Most enterprise finds that banks are faxable in in interest rate. Among the bank's loan, bank loan of less one year are more popular in public sector where as banks loan of 1-5 year are more popular in private sector. In period of light money, the major of private sector enterprises fell that bank will treat all firms equally while public sector doesn't fell so. Similarly he conclude that major of enterprises in

traded sector finds that banks interest rate is just right while the majority of non traded sector finds that some is one higher side.

Mr. Shekhar Bahadur Pradhan has presented a short glimpse on investment in different sector, its problem and prospects through his article, "Deposit mobilization, its problem and prospects."

On this article, he has expressed that, "Deposit is the life of any financial institution, be it commercial bank, finance company, co-operative or non government organization". He has added, "in consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problem and prospects of deposit sector. Barring few joint-venture banks other organization rely heavily on the business deposit receiving and credit disbursement.

In the light of this Mr. Pradhan has pointed out following problems of deposits mobilization in Nepalese perspective.

- a) Due to lack of education, most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornament of kind. Their relocation to deal with institutions system are governed by the lower level of understanding about financial organization, process requirement, office hour withdrawals system, availability of depositing facilities and soon.
- b) Due to the office hour of banking system people prefer for holding the cash in the personal possession.
- c) Unavailability of the institutional services in the rural areas.

- d) No more mobilization and improvement of the employment of deposits in the loan sector.

Mr. Pradhan has not only pointed out the problems but also suggested for the prosperity of deposit mobilization. They are given:

- a) By cultivating the habit of using formal sector for transaction must be a priority and continuous educational programmed.
- b) By adding service hour's system will definitely be an appropriate setup.
- c) By providing sufficient institutional service in the rural areas. If deposit mobilization, materialize, that should be taken as major achievement as this generated fund can be used somewhere else by the bank. NRB could endorse this deposit collection by continuing to subsidies overhead cast for little long period. A full scale of filled office system could be taken back and modes manpower strength deputed to cut-down overhead cast.
- d) NRB could also organize training program to develop skilled manpower.
- e) By spreading co-operative to the rural areas mini-banking service are to be launched.
- f) The scheme of mobilizing the deposit in the form free personal accident insurance, deposit insurance may be fruitful. Not only waiting far potential customer it is better to reach to the potential depositors.

Mr. Pradhan mentioned, "Deposit mobilization carried out effectively is in the interest of depositors, society, financial sector, and the nation. Lower level of

deposit rising allow squeezed level of loan delivery leaving more room to informal sectors. That is why higher priority to deposit mobilization has all the relevance.

Shiva Raj Shrestha, Deputy chief officer of NRB Banking Operation Department, has given a short glimpse on the "portfolio management in commercial banks, theory and practice". Mr. Shrestha has highlighted issues in the article.

The portfolio management becomes very important both the individual and the institutional investors. Investors would like to select a best mix of investment assets subject to following aspects.

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

In view of above aspects following strategies are adopted.

- Do not hold any single security; try to have a portfolio of different securities.
- Do not put all the eggs in the one basket to have diversified investment.
- Choose such a portfolio of securities, which insures maximum return with minimum risk or lower of return with added objectives of wealth maximization. However, Mr. Shrestha has also presented following approach to be adopted for designing a good portfolio and its management.

- To find out the invisible assets (generally securities) having scope for better returns depending upon individual characteristic like age, health, need, deposition, liquidity, tax liability etc.
- To find out the risk of securities depending upon the attitude of investor toward risk.
- To develop alternative investment strategies for selecting a better portfolio, which will ensure a trade-off between risk and return so as to attach the primary objectives of wealth maximization at lower risk.
- To identify of securities for investment to refuse volatility of return and risk.

Shrestha has presented two types of investment analysis technique; i.e. fundamental analysis and technical analysis to consider any securities such as equity, debenture or bond and other money and capital market instrument. He has suggested that the bank having international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system [MIS] in any commercial bank to get success in portfolio management and customer's confidence.

According to shrestha, the portfolio management activities of Nepalese commercial banks at present are in nascent stage. However, on the other hand, most of banks are not doing such activities so far because of following reasons.

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

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

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

Dr. Govinda Bahadur Thapa has presented his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loan and advance of these banks are also increasing but compare to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are operating with a nominal profit, the later turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. Because of these two local banks, in traditional off-balance sheet operations, these banks have not been able to increase their income from commission and discount. On the country, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign venture banks have been functioning in an extremely efficient way, They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and a shareholders. Because of their effective persuasion for loan recovery overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet operations and efficient personnel management has added to the maximization of their profits.

At the end of this article, he conclude that by its very nature of the public sector, the domestic banks couldn't compete with the private sector banks, so, only remedy to the problem of these banks, as the government decide, is to hand over the ownership as well as the management of these banks to the private hands.

F. Moris, in his article entitled "Latin America's Banking System in the 1980" has concluded with most of the banks concentrated on compliance with bank rules on reserve requirements, credit allocation and interest rates. While analyzing loan portfolio quality, sound investment policy, operating efficiency has largely been overlooked. In May developing countries, there are huge losses found in the bank's portfolio due to the poor quality of their oversight investment function.

He further adds that poor management of financial institutions has involved inadequate and overoptimistic loan appraisal, tax loan recovery high-risk diversification of lending and investments, high risk concentration, connected and insider lending, loan mismatching. This has lead many banks of developing countries to the failure in 1980s.

Dr. Champak Prasad Pokharel in the article entitled "financial Sector Reform And Challenges", Agricultural credit publication stresses that highest liquidity makes the financial institutions un-bankable by creating unnecessary burden of bearing the cost of capital. Dr. Phokharel expresses that most of the financial institutions are lying on uneconomic situation due to in effectiveness of portfolio management on the one hand and deficiencies of efficient modern management on the other. As for the betterment of the financial possibility in portfolio projects, like hearth, residential buildings, communications, lea gardening etc.

Dr. Pokharel further suggests that commercial banks need to make strong strategy urgently with shifting the money from foxed deposit to saving reducing the interest between deposits and interest spread in both sectors. He highlights that fixed deposit has been increasing in the ratio of 0.44 to 0.95 form 1990 to 1999.

4. Review of Master's Degree Thesis

Indra Pokharel in his study entitled "The Investment Pattern and Policy of Rastriya Baniya Bank" stresses some conclusions and recommendations, which are as follows;

- The investment pattern of R.B.B. is mainly towards the security of gold and silver.
- The banking costs have retained relatively very high.

- There has been a sharp increase in the banking branches through out the kingdom; however, they have not grown at a desired rate. Moreover, the banks are still mainly concentrated in urban areas rather than in the rural sectors.
- There has never been any clear and specific investment policy. In fact the bank is running its business without having any definite direction, expect to follow the directions issued by the Rastra Bank from time to time.
- The deposits, which are raised by the bank, are not properly utilized.
- The R.B.B. has not invested in priority sector as per the directives of N.R.B. etc.

Mr. Pokharel further recommends the bank to invest in priority sector as per directed by the Central Bank making the process easier and does the investment only for risible projects. If investments are made only for feasible projects, the risk will automatically reduce to a minimum level. Personal influence should be reviewed as a great threat to the banking development. Mr. Pokharel further says that the bank should start modern banking activities expanding branches in rural areas.

Mr. Netra Kumar Khatri, expressed his view in the entitled of "A study in investment of NIDC" as supposed to be invested the highest percentage of loan as directed loan and the least percentage as guarantee loan. NIDC has given high priority towards central development and least to far western development region. During his study period he has also found that NIDC has allocated highest percentage of financial assistance to hotel, lodge and tourism based industrial sector and the nominal amount has been allocated to cottage, health, education and other industrial sector. In the recommendation column, he has recommended that NIDC

have to finance all development regions and other prior sector giving equal priority to minimize industrial imbalance among the different regions.

Mr. Gurung has found that both JVBs (are considered in the study) indicate satisfactory in liquidation position and interest leverage ratios. the capital structure of both banks is extremely covered but they have been maintaining sound capital adequacy ratio as per NRB directives. In addition to this, he has recommended to maintain improved capital structure by increasing equity base.

He has further suggested extending their banking facilities even in the rural areas by running up branch offices.

Sailes Kumar Adhikari on his thesis study "Investment Policy of Nepal Industrial Development Corporation" concludes that there is a fluctuation in the approved and disbursed loan. Sometimes, the approval amount has gone up but the disbursement has been lowered and vice versa, as well as there is increasing and decreasing trends in the investment pattern year by year.

In view of the liberal economic policy adopted by HMG and open market competition, the corporation has made its investment policy more flexible and expanded into resources mobilizing sector.

The corporation has given priority to the project based on indigenous raw materials and man power as well as sought the policy of investing in small hydro-electricity projects.

In conclusion, it can be said that in order to play a more dynamic role in the industrial development of the country the corporation has made plans to increase its paid-up capital, reserve fund and slowly move toward privatization.

Mr. Raja Ram Khadka, on his study "A Study on the Investment Policy of Nepal Arab Bank Ltd. (NABIL) in comparison to other Joint Venture Banks of Nepal" compared NABIL with that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosweze Bank Ltd. (NIBL). The main objectives of the study were to evaluate the liquidity, assets management efficiency and profitability positions related to fund mobilization of NABIL in comparison to other JVBs. To discuss fund mobilization and investment policy of NABIL in respect to its fee-based off-balance sheet transaction and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of the total deposits, and net profit of sample banks. To find out the relationship between deposit and total investment, deposit and loan and advances, and net profit and outside assets of sample banks. To evaluate the trends of deposit utilization and its projection for next five years in case of NABIL comparing it with that of other JVBs. And to suggest and recommend some measures on the banks of comparative fund mobilization and investment policy of NABIL and other JVBs for the improvement of financial performance of NABIL in future.

Mr. Khadka has found that the liquidity position of NABIL is comparatively worse than that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosuez Bank Ltd. (NIBL). It is also comparatively less successful in On-balance sheet utilization as well as off-balance sheet operation than that of NGBL and NIBL. In the case of profitability ratio he has concluded that the profitability position of NABIL is comparatively not better than that of other joint venture banks (JVBs). NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NGBL and NIBL.

Mr. Khadka has not explained his idea of liberal lending policy through he has recommended to NABIL to adopt liberal lending policy. He has explained how to reduce cost as well.

In the study of Mr. Upendra Tuladhar, "A Study on the investment Policy of Nepal Grindlays Bank Ltd. in comparison to other Joint Venture Banks of Nepal" the main objectives were, to study the fund mobilization and investment policy with respect to fee-based off-balance sheet transaction and fund-based on-balance sheet, to evaluate the liquidity, efficiency of assets management and profitability position. To evaluate the growth ratios of loan and advances and total investment with respect to growth rate of total deposit and net profit of sample banks. To evaluate trends of deposit utilization toward total investment and loan and advances and its projection for five years. To perform empirical study on the customers' view and ideas regarding the existing services and adopted investment policy of the joint venture banks and to provide suggestions and recommendation on the basis of the study.

Mr. Tuladhar on his study found that on the basis of primary data concludes on a well-known fact that most of part of nation is surrounded by the rural areas; it is quite hard to think about the development of the country without spreading banking facilities among the areas. Further, on the basis of secondary data, the liquidity ratio of NGBL has maintained successful in its on-balance sheet operation. But in the case of off-balance sheet operation, NGBL is advance than NABIL and HBL. It predicts that NGBL and successfully maintained and managed its assets towards different income generating activities. He further explain, that in the case of profitability ratio NGBL is in higher profitability position than NABIL and HBL as well as it provide interest to the customers for different activities is highly consistent. The growth ratio of net profit of NGBL seemed to be more satisfactory than NABIL but in the ease of HBL it seemed to be very high. Mr. Tuladhar further found that in the case of significance difference on loan and advance to total deposit ratio, total investment to total deposit ratio, mean ratio, mean of total OBS operation to loan and advanced ratios, means of investment on government securities to current ratios, mean of loan and advance to total deposits ratio in between NGBL with NABIL and HBL respectively. But there is no significant difference of mean

of total interest earned to total outside assets was found in between NGBL with NABIL and HBL respectively. In the case of coefficient of correlation, there is negative correlation between NGBL and NABIL but positive correlation between NGBL and HBL in respect to deposit and total investments. In case of loan & advances to total deposit ratios increasing trends are found for NGBL and NABIL. But in case of HBL, it is decreasing trend. And in case of total investment to total deposit ratios both NGBL and NABIL used to ignore investment, as trend seemed to be decreasing.

Ms. Thapa has found that the liquidity position of NB Bank is comparatively better than that of NABIL and NGBL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. It has good deposit collections, has made enough loan and advance but it has made the negligible amount of investment in government securities. The NB bank is not in better position regarding its on-balance as well as off-balanced activities in compare to NABIL and NGBL. It does not seem to follow any definite policy regarding the management of its assets. She further found that the profitability position of NB Bank is comparatively worse than that of NABIL and NGBL. The bank must maintain its high profit margin for the well being in future. NB bank has maintained high a growth rate in comparison to other banks through it is not successful to make enough investment. And can say that the bank is successful in increasing its sources of funds and its mobilization. Finally, she concluded that there is significant relationship between deposit and loan and advance's and outside asset and net profit of NB bank, NABIL and NGBL. But there is not significant relationship between deposit and investment of NB bank only. NB bank has maintained high growth rates in comparison to other banks through they are not successful to make enough investment. The position of NB bank is regard to utilization of the fund to earn profit is not better in compare to NABIL and NGBL. NB bank has not provided ATM

facility, credit card facility, any branch bank (ABB) facilities and web site etc but these facilities are providing by the NABIL and NGBL.

A Study conducted by Archana Joshi "A comparative study on financial part of NSBIL and NBBL, the research conducted that the loan and advances to total deposit ratio is fluctuating for NSBIL. It is lowest in fiscal year 1997/98 whereas the ratio is in decreasing trend up to fiscal year 1999/2000 for NBBL but it is so improved in 2000/01.

Another dissertation performed by Rajesh Shakya entitled "Financial analysis of joint venture banks in Nepal with reference of NIBL & NGBL has found that cash and bank balance to total deposit ratio of NABIL is in fluctuating trend whereas the same ratio of NGBL is in decreasing trend again NGBL's liquidity position is comparatively better than that of NABIL, loans and advance to total deposits ratio is in fluctuating trend and the same for NGBL is firstly in increasing trend then following the declining trend.

The review of master's degree Thesis is done from 1976 to 2001. Various analysis has been done like, performance analysis of banks, lending policies of the banks, investment policy of commercial banks, deposit mobilization and utilization etc. But in these previous studies no research has been found relating to the reinvestment problems of excess ideal fund of the commercial banks in other words, the previous studies has dealt with secondary data and only financial ratio analysis has been used as the main tool. There is no clear vision for increasing deposit and its reinvestment problems for commercial banks.

This study is an attempt to study and analyze increasing deposit and investing problems of Nepalese commercial banks. The study has been done on the basis of latest data for six years period of time i.e. from FY 2004/2005 to FY 2009/2010. The study is based on recent position of commercial banks.

CHAPTER-III

RESEARCH METHODOLOGY

3.1. INTRODUCTION.

A research is an intensively powerful search for knowledge and understanding of social and physical phenomena. Research is a systematic inquiry or examination made to discover new function or relations and to expand, verify existing knowledge whether in academic (theoretical) or applied sector. As mentioned earlier, it is a systemic enquiry it needs to be properly designed before beginning the research. Such preparation of research design or plan helps to carry out the research work smoothly. Research design consists of statement of the problem, methodology, population and sample, data analysis, interpretation of data and format of research report.(Kothari C.R, 1991)

- 1) How to collect the data.
- 2) How to setup the hypothesis.
- 3) Which statistical tools to be used.
- 4) How to interpret the findings of the research

3.2. RESEARCH DESIGN.

This research has done effort to analyze the patterns of deposit and investment of commercial banks on the basis of historical data and information. So that most of the data and information of the study were related with past phenomena of the performance. So it can be regarded as historical research. According to Kothari "Research design is a plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variances.

This research is the arrangement of conceived so as to obtain to research question and to control variances. It is the arrangement of condition for collection and analysis of data. To achieve the objective of the study, quantitative or analytical based as well as descriptive research design has been used.

Some financial and statistical tools have applied to examine facts and descriptive, techniques have been adopted to evaluate deposits and investment of SCBL, Nabil NSBIBL.

3. POPULATION AND SAMPLE

The large group about which the generalization is made is called the population or universe of the study. The small portion of the population covered by the study is called the sample. The procedure used for the selection of sample from the population is called the sampling method. Under the comparative study of deposit and investment patterns of NSCBL, EBL and NSBIBL and, the total no of commercial Bank including domestic and joint venture Banks operating in the Nepal are the population. Three Banks out of total commercial Banks operating in Nepal are taken as sample for this study. It is first because the collection, analysis and interpretation of data will be difficult due to the lack of time and resource. The selected sample banks for the analysis are as follows.

1. Nepal Standard Chartered Bank Ltd.
2. Nabil Bank Ltd.
3. Nepal SBI Bank Ltd.

4. NATURE AND SOURCE OF DATA COLLECTION.

The study is based mainly on secondary data as well as primarily data. It is made the effort to gather information by published materials of different organizations,

such as NEPSE, SEBO/N, Central Bureau of Statistics, Nepal Rastra Bank etc. In addition to above, supplementary data and information were collected from different library such as library of Nepal Commerce Campus, Shanker Dev Campus, TU Central Library, Library of NRB, similarly various data and information were collected from the periodical economic journal and other published and unpublished reports. Similarly, informal inquires and dialogues with authorities of related institutions are also other sources of data.

5. METHOD OF DATA ANALYSIS

Collecting data is the concentrating link to the world of reality for the researcher. The data collection activity consists of taking information form reality and transferring it into some recording system so that it can be examined and analyzed. Research as a media can be interpreted as having a content of data and a process of methodology without the data, methodology cannot be utilized to bring us to the conclusion, which is the hypothesis suggest.(wolf and Panth ,2002)

While deciding about the method of data collection, to be used for the study, the researcher should rewind in mind two types of data viz. primary and secondary sources of data. The primary data are those which are collected fresh and for the first time, and this happens to original in character. The secondary data, on the other hand are those which have already been collected by someone else and which have already been passed through the statistical process. The researcher would have to decide which sort of data s/he would be using for his study and accordingly s/he will have to select any one or both methods of data collection. The methods of collecting primary and secondary data differ, since primary data are to be originally collected, while in case of secondary data the nature of data collection work is merely that of completion. The problems of the study lies on the issue related to the comparative strength and weakness of the Bank as a consequence of liberal policy adopted by the government, financial institution have been emerging in the county.

The sampled banks have been facing threats from such institution. Therefore, the study has been conducted to analysis the deposit and investment patterns of the sampled units. This study is also intended to find the weakness and strength so that appropriate suggestion can be provided to make the solution on investment problems the Banks in coming days. Although, the study mainly used secondary data, high level of efforts and more time paid to get the data most of the data were obtained after convincing extensively to concerned officers or authorities. Official publication like economic survey, annual report, Banking and none banking financial statistics economic bulletin etc were obtained from the particular respective offices. To some extent informal interviews were conducted to obtained more information and reality about the various published data. Data obtained from the various sources cannot be directly used in this original form. Further, they need to be verified and simplified for the purpose of data analysis.

According to the nature of data, they have been interested in meaningful tables. Homogeneous data have been sorted in one table and similarly various tables have been prepared in understandable manner. Odd data excluded from the table. Using financial and statistics tools data have been analyzed and interpreted. Financial and statistical tools are the main tools to be used in the calculation of the data. In order to interpret and present the data, various variables and analysis are used as per the necessities, which are as follows.

5.1 FINANCIAL TOOLS (RATIO ANALYSIS):

Ratio analysis is the calculation and interpretation of financial ratio to assets the firm's performance and status. It is the relationship between two accounting figures expressed in mathematically.

"Ratio analysis is the main tool of financial statement analysis. Ratio means the numerical of quantities relationship between two items or variables. It can be expressed as percentage, fraction or stated comparison between numbers.

Financial ratio is the mathematically relationship between two accounting figures.

"Ratio analysis is used to compare a firm's financial performance and status to that of other firms or to itself overtime." From the help of ratio analysis, the quantities judgment can be done regarding financial performance of a firm.

5.1.1 Liquidity ratio:

Liquidity ratios measure the ability of the firm to meet its current obligation. Liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess of liquidity. The failure of a company to meet its obligation due to lack of sufficient liquidity, will result in a poor creditworthiness, loss of credit or, confidence, or even in legal tangles resulting in a closure of the company. Very high degree of liquidity is also bad. Idle assets earn nothing. The firm's funds will be the necessarily tied in current assets. Therefore, it is necessary to strike a proper balance between profitability and liquidity. It is because high liquidity reduces the profitability. Depending on the special nature of current assets and current liability of the Bank, the used ratios are given below:

- a. Current Ratios
- b. Cash and Balance to Total Deposit Ratios.
- c. Investment on Government Securities to Current Assets
- d. Loan and Advance to Current Assets
- e. NRB Balance to Total Deposit Ratios.

a) Current Ratios:-

Current ratio is measure of firm's liquidity. It indicates the availability of current assets in rupees for every one rupees of current liability. As a conventional rate, a current ratio of 2 to 1 in considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In spite of its short coming, it is a crude and quick measure of the firm's liquidity. Current ratio is computed by dividing current assets by current liabilities. i.e.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

b) Cash and Bank balance to Total Deposit Ratios:

Total deposit consists of current deposits, saving deposit, fixed deposit, money at call and short notice and other deposit. This ratio shows the proportion of total deposits held as most liquid assets. High ratios show the strong liquidity position of the Bank. But too high ratio is not favorable for the Bank because it produces adverse effect on profitability due to idleness of high- interest bearing funds. This ratio is calculated by dividing cash and Bank balances by total deposit. Cash and Bank balance include cash on hands, foreign cash on hands, cheques and other cash items, balances with domestic Bank and balance held abroad. The total deposits consist of current deposit, saving deposit, fixed deposit, and money at call, short notice and other deposits. i.e.

$$= \frac{\text{Cash and Bank balance}}{\text{Total Deposit}}$$

c) Investment on Government Securities to Current Assets:-

Investment on government securities includes treasury bills, development bonds, saving bonds etc. This ratio can be computed by dividing investment on government securities by current assets. This can be stated as:

$$\frac{\text{Investment on government securities}}{\text{Total Current assets}}$$

d) Loan and Advance to Current Assets:-

This ratio can be computed by dividing loans and advances by current assets. This can be mentioned as:

$$\frac{\text{Loan and Advance}}{\text{Current assets}}$$

The numerator consists of loan, advances, cash credit, local and foreign bills purchased and discounted.

e) NRB Balance to Total Deposit Ratios:

This ratio shows the NRB deposit as percent of total deposit. This ratio is calculated by dividing balance with NRB by total deposits. The NRB balance consists of cash on hand, foreign cash items, balance and balance with NRB and domestic Banks, balance held abroad and money at call and short notice. . i.e.

$$= \frac{\text{Balance with N}}{\text{Total Deposit}}$$

5.1.2 Activity ratio:

Funds of creditors and owners are invested in various assets to generate revenue and profits. The better the management of assets, the larger will be the amount of revenue. Activity ratios are employed to evaluate the efficiently with which the firm

manages and utilizes its assets. This ratio is also called turnover ratios. Because they indicate the speed with which assets are being converted or turned over into revenue. Activity ratios, thus, involved a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. Various activity ratios can be calculated to evaluate the effectiveness of the assets utilization.

- a) Total investment to total deposit ratio
- b) Loan and advance to total deposit ratio
- c) Loan and advance to total working fund ratio
- d) Investment of government securities to total working fund ratio
- e) Investment on shares and debentures to total working fund ratio
- f) Total Off-balance Sheet (OBS) operation to loan and advances ratio
- g) Money at call and investment to total deposit ratios.

a) Total investment to total deposit ratio :

The numerator consists of investment or government securities, investment on debenture and bonds, shares in subsidiary companies, shares in other companies and other investment. This ratio can be calculated by dividing total investment by total deposit, it can be mentioned as:

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

b) Loan and advance to total deposit ratio:

This ratio is computed by dividing total loans and advance by total deposit. Loan and advance consists of loans, advance, cash credit, overdrafts, and foreign bills purchased and discounted. The ratio presents the proportion of total deposit invested in loan and advance. High rate means the greater use of deposits for investing in loans and advance but very high ratios may indicate poor liquidity positions and risk

in loans. On the contrary, too low ratios may be the cause of idle cash which do not generate any earning.

c) Loan and advance to total Working fund ratio

This ratio is calculated by dividing loan and advance by total working fund. This can be stated as:

$$= \frac{\text{Loan and advance}}{\text{Total working funds}}$$

The denominator includes all assets of On-balance sheet items. In other word, this includes current assets, net fixed assets, loans for development banks and other miscellaneous assets but excludes Off-balance sheet items like letter of credit, letter of guarantee etc.

d) Investment of government securities of total working fund ratio:

This ratio is calculated by dividing investment on government securities by total working fund. This can be stated as:

$$= \frac{\text{Investment on government securities}}{\text{Total working funds}}$$

e) Investment on shares and debentures to total working fund ratio

This ratio can be computed by dividing investment on share and debenture by total working fund. This can be stated as:

$$= \frac{\text{Investment on share and debenture}}{\text{Total working funds}}$$

The numerator includes investment on debentures, bonds and share of other companies.

f) Total Off-balance Sheet (OBS) operation to loan and advances ratio:

This ratio is calculated by total OBS operation by loan and advances. This can be stated as:

$$= \frac{\text{Total OBS operation}}{\text{Loan and advance}}$$

This numerator gives the indication that these transaction/operations are not included or part of balance sheet items assets or liabilities. It includes letter of credit, letter of guarantee; documents negotiate under reserve (DNUR), capital commitments. Commitments on foreign currency purchase contracts, claimed at bank but not accepted and other such transactions.

g) Money at call and investment to total deposit ratios:-

This ratio is computed by dividing money at call and investments by total deposits. This can be stated as:

$$= \frac{\text{Money at call and investments}}{\text{Total deposits}}$$

Investment includes investment in HMG treasury bills Development bonds, company shares, money at call and other investment.

5.1.3 Profitability Ratio:

A company should earn profits to survive and grow over a long period. A profit is the difference between revenues and expense over a period of time (usually one year). Profit is the ultimate output of a company is operation, and it will have no future if it fails to make sufficient profits. Therefore, the financial managers should continuously evaluate the efficiency of the company in term of profits. The

profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principle regularly in time. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profits. Following major types of profitability ratios are used for evaluating the investment and deposit patterns of sample Banks.

- a) Return on total deposit ratio
- b) Return on loan and advances ratio
- c) Total Interest Expenses to Total Interest Income Ratio

a) Return on Total Deposit ratio:

The ratio is computed by dividing net profit after tax by total deposit return on total deposit. This ratio is used to indicate and make clear about the relation of net profit after tax by the Bank with the total deposit accumulated. Higher ratio in the index of strong profitability position. This can be stated as:

$$= \frac{\text{Net Profit}}{\text{Total Deposit}}$$

b) Return on loan and advances ratio:

The ratio is calculated by dividing net profit by loan and advances. This can be stated as:

$$= \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

c) Total Interest Expenses to Total Interest Income Ratio

This ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view. The ratio is obtained by dividing total interest expenses by total interest income. This can be stated as:

$$= \frac{\text{Total interest expenses}}{\text{Total interest income}} \times 100 \%$$

Total interest expenses consist of interest expenses incurred for deposit, borrowing and loans taken by the Bank. Total interest income includes interest income received from loans, advance cash credit, overdrafts, and government securities, inter Bank and other investment.

5.2 STATISTICAL ANALYSIS:

The science of statistics is the methods judging coactive, natural social phenomenon from the results, obtained from the analysis or enumeration or collection of estimates. Statistics is the science which deals with classification and tabulation of numerical facts as the basis of explanation description and comparison of phenomenon.

Various statistical tools can be used to analysis the data available to the researcher. These tools are used in research. In order to draw the reliable conclusion from the analysis of financial data.

Following statistical tools are used for our study purpose.

5.2.1 Arithmetic mean.

5.2.2 Co- efficient of Correlation between different variables.

5.2.3 Regression analysis

5.2.1 Arithmetic Mean:

Arithmetic mean of a given set of observation. It is the sum divided by the number of observation. An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group. As typical of all the values in the group, arithmetic means is a useful tool in statistical analysis.

In general, if X_1, X_2, \dots, X_n are given n observation than their arithmetic usually denoted by mean, is given by

$$\text{Mean } (\bar{x}) = \frac{\sum x_1 + x_2 + \dots + x_n}{n}$$

Where $\sum x$ = The sum of the observation.

Where n = Number of the observation.

5.2.2 Co-efficient of Correlation between different variables:

This analysis identifies and interprets the relationship between two or more variables. In the case of highly correlated variables, the effect on one variable may have effect on other correlation variable. Under this topic, Karl Person's Co-efficient of Correlation has been used. To find out the relationship the following variables:

- (i) Co-efficient of correlation between deposit and loan and advances.
- (ii) Co-efficient of correlation between deposit and total investment.

This tool analyzes the relationship between these variables and helps the banks to made appropriate policy regarding deposit collection, fund utilization (loan & advances and investment) and maximization of profit. The correlation coefficient (r) between two variables X and Y can be obtained by using following formula.

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \cdot \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Following general point may be borne in mind, while interpreting an observed value of correlation coefficient.

1. If $r=+1$ implies that there is perfect positive correlation between the variables.
2. If $r=-1$, there is perfect negative correlation between the variables.
3. If $r=0$, the variable are uncorrelated. However $r=0$ does not imply that the variable are independent.

If r lying between $+1$ and -1 , there are no set guidelines for its interpretation. The maximum, we can conclude that nearer in the value of the closer is the value of r to 0 , the less closed is the relationship between them. One should be very careful in interpreting the value of r as it is often misinterpreted.

5.2.3 Regression analysis:

Regression is stepping or returning back to the original position. It is used as a tool of determining the strength of relationship between two variables.

CHAPTER–IV

DATA PRESENTATION AND ANALYSIS

1. INTRODUCTION:

The whole research is based on the analysis and interpretations of collected data. Without analysis, interpretations and presentations of the primary and secondary data the thesis don't give any meaning.

This chapter presents the analysis, calculations, interpretations and presentations of the related available data of commercial banks. Some secondary data are calculated on the basis of financial and statistical ratio. The ratios calculations have been done through statistical programme of the computer.

The main purpose of this chapter to study and evaluate major financial performances that are mainly related to the deposit, investments and credit of NSBL, EBL and SCB. It is notable that all the ratios are not studied under this chapter; only those data and ratios are calculated and analyzed which are very important to evaluate deposits and loans of commercial banks.

1.1 SOURCES AND USES OF FUNDS OF NEPAL SBI BANK LIMITED.

A. Performances Highlights of NSBL

Table: 4.1

Sources and Uses of Funds of Nepal SBI Bank Limited

Rs. In Million

Sources	Mid July					
	2005	2006	2007	2008	2009	2010
Capital & reserve	689.01	982.37	1163.29	1414.64	1712.61	2450.55
Deposits	8654.77	11002.04	1145.29	13715.39	27957.22	34896.42
Borrowings	469.63	612.43	815.36	1627.48	727.47	-
Other Liabilities	500.83	137.38	137.38	142.58	231.54	345.25
Uses						
Liquid funds	846.86	1333.16	1472.69	1646.97	1903.91	3441.26
Investments	2607.68	3758.98	2659.45	3088.89	13286.18	16305.63
Loans & advances	6213.88	7626.74	9460.45	12113.70	15131.75	17480.55
Others Assets	610.50	225.70	207.54	217.67	341.27	401.99
Profit after tax	57.39	117.00	254.91	247.77	316.37	391.74

Source: Annual Report of NSBL(2004/2005 to 2009/2010)

Table 4.1 shows that The bank has been able to augment its net profit by 23.82% to 391.74 million as compared to Rs. 316.37 million posted last year. The levels of advances have gone up to Rs. 17480.55 million from Rs. 15131.75 million, registering a growth of 15.52% over previous year. The deposit of the bank increase and rising the investment of opportunity for investing in quality assets. The bank has been consistently increasing its exposures to the priority sector and the deprived sector of the economy in keeping with the guidelines of Nepal Rastra Bank. Total investment of the bank is upgoing to the level of Rs. 16305.63 million, recording an increase of 22.73% over the previous year.

B. Deposits of Nepal SBI Bank Limited.

Table: 4.2

Deposits of Nepal SBI Bank Limited

Rs. In Million

S.N.	Purpose	Mid July					
		2005	2006	2007	2008	2009	2010
1	Current	1773.54	1408.3	1930.43	1738.10	2864.73	2861.88
2	Margin deposit	100.59	79.79	97.98	122.44	186.52	123.09
3	Savings	2458.80	2832.64	3274.69	4171.18	5822.93	7348.00
4	Fixed	4086.36	6116.17	5517.47	6854.88	17438.40	22148.95
5	Call Deposits	225.90	565.14	624.71	828.80	1645.26	2413.54
	Total	8645.19	11002.04	11445.28	13715.40	27957.84	34895.46
	% Growth		29.78	4.03	19.83	103.84	24.81
	Mean	1729.03	2200.41	2289.06	2743.08	5591.57	6979.09
	S.D.	1483.56	2425.46	4369.62	5521.65	6939.46	8874.98
	C.V.%	85.80	110.23	190.89	201.29	124.11	127.16

Source: Annual Report of NSBL

Table 4.2 shows that the total deposits grow by 29.78% in FY 2006 but the growth rate reduced to 4.03% in FY 2007. After the tremendous decreased the growth rate sluggishly went up to 103.84% in FY 2008/09 but the deposit growth rate is decline on 24.81 % which is (-76.11%) over previous year. The C.V calculations show the high fluctuations in the deposits of NSBL.

C. Deposits, Loans and Investments of NSBL

The table below shows the relationship between deposits, loans and investment of NSBL during the study period.

Table 4.3

Deposits, Loans and Investments of NSBL

Rs. In Million

S.N.		Mid July					
		2005	2006	2007	2008	2009	2010
1	Deposit	8654.77	11002.04	11445.28	13715.4	27957.22	34896.42
3	Loan & Advance	6213.88	7626.74	9460.45	12113.7	15131.75	17480.55
2	Investment	2607.68	3758.98	2659.45	3088.89	13286.18	16305.63
	Loan to Deposits %	71.80	69.32	82.66	88.32	54.12	46.13
	Investment to Deposit %	30.13	34.16	23.24	22.52	47.52	46.73
	% Growth of Investment		44.15	-29.25	16.15	330.12	22.73
	% Growth of Loan & Advance		22.74	24.04	28.05	24.91	15.52

Source: Annual Report of NSBL(2004/05 to 2009/10)

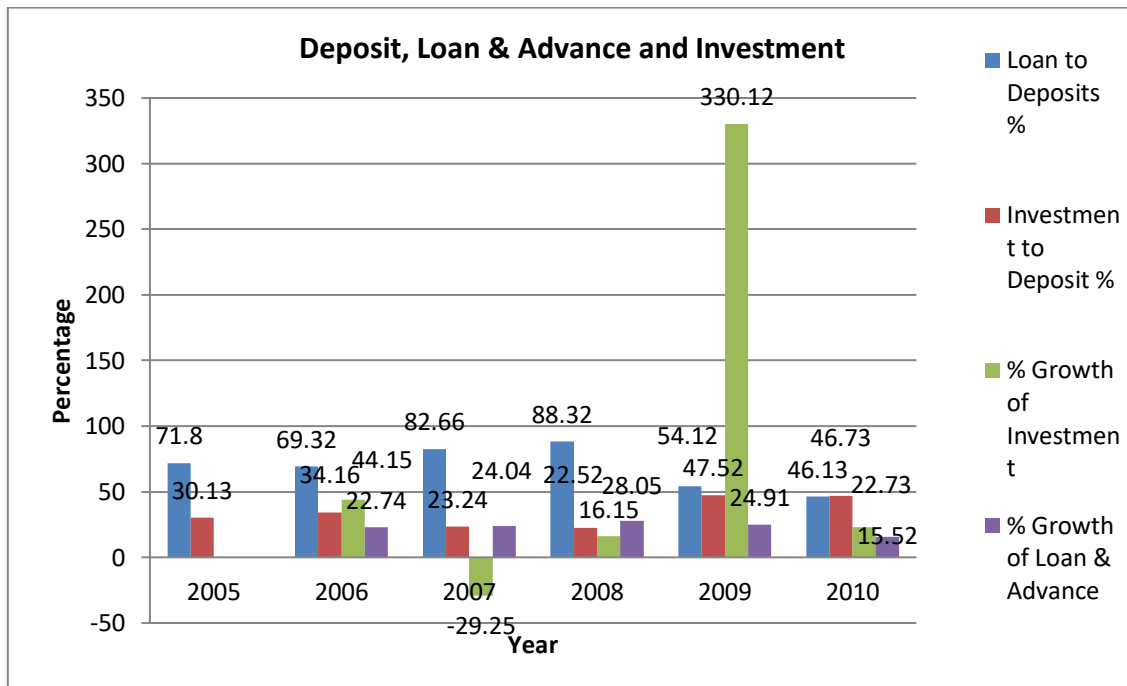
Table 4.3 shows that the investment growth rate of NSBL in FY 2006/07 were negative (i.e.29.25% respectively) but there was a remarkably rise in growth rate of 16.15% in the FY 2007/08. The tremendous growth is seen in the year 2008/09 i.e. 330.12%, and again falls down to 22.73% in Mid March 2010. This shows the high fluctuation in the investments of the bank during the study period.

Total loan to deposit in 2004/2005 noted as 71.80%, which decreased to 69.32% in the year 2005/2006. The improvement in the banks policies and reductions in CRR policies by the government enables the bank to increase their loans and advance to the growth rate of 22.37%,24.04% and 28.05% in FY 2005/2006, 2006/2007 and 2007/2008 respectively. But it doesn't hold more than two years and again fall down to 24.05% and 15.52% in FY 2008/09 and 2009/2010 respectively.

The surplus idle money of the bank is invested in other sectors i.e. treasury bills etc. Here, it is clear that when the loan percentages decrease the investments at that particular period increases. The bank makes it clear in their annual reports that the investing opportunities are reducing, which force them to avoid excess amount of interest bearing deposits.

Figure 4.1

Deposit, Loan & Advance and Investment on NSBL



In Figure 4.1 shows that loan on deposit is mostly similar on the study period as 71.8%,69.32%,82.66%,88.32%,54.12% and 46.73% on2004/05 to 2009/10.it shows that the investment on loan is not highly fluctuating so much. But the investment in deposit is highly fluctuating on the study period. on FY2006/07 the rate is negative to -29.25% and on FY 2008/09 the rate is highly increase to 330.12 %. it shows that the bank has lack of investing on loan and advance so for recover for interest on deposit they invest on investment sector.

as well as the Growth rate of loan and advance is not much more up and down but the investment growth rate is highly fluctuating on the study period.

1.2 SOURCES AND USED OF FUNDS OF STANDARD CHARTERED BANK NEPAL LIMITED.

A. Performances Highlights of SCBNL

Table: 4.4

Sources and Uses of Funds of Standard Chartered Bank Nepal Limited

Rs. In Million

Sources	Mid July					
	2005	2006	2007	2008	2009	2010
Capital & reserve	1582.42	3253.51	2116.35	2492.55	3052.46	3369.71
Deposits	19335.09	23061.03	24647.02	29744	35871.72	35182.72
Borrowings			400.00		300.00	
Other Liabilities	863.84	405.43	1049.80	503.43	809.78	802.50
Uses						
Liquid funds	3370.81	2224.26	3782.17	4247.78	5192.71	3598.77
Investments	9702.55	12847.54	13553.23	13902.82	20236.12	19847.51
Loans & advances	8143.21	8935.42	10502.64	13718.60	13679.76	15956.96
Others Assets	605.60	938.56	633.05	1349.32	1341.58	691.55
Profit after tax	536.24	658.76	691.67	818.92	1025.11	1085.87

Source: Annual Report of SCBNL(2004/05 to 2009/10)

Table 4.4 shows that the bank have been able to augment its net profit by 5.93% to 1085.87 million as compared to Rs.1025.11 million posted last year. It was increased remarkably by 22.85% in FY 2006. The levels of advances have gone up to Rs.15956.96 million from Rs.13679.76 million, registering a growth of 16.65 % over previous year.

Here, the index analysis on total investment of SC Bank is chosen the FY 2004/2005 as the base year. The bank has also the portfolio of investment including loan and advance, government securities and share and debentures. The index of loan and advance, deposit and investment are in increasing almost in all the year,

but the increasing rate is fluctuating. The deposit in 2009/10 is decrease by 1.92%, whereas the investment of the same year is also decrease by same ratio 1.92%.

B. Deposits of Standard Chartered Bank Nepal Limited.

Table: 4.5

Deposits of Standard Chartered Bank Nepal Limited

Rs. In Million

S. N.	Purpose	Mid July					
		2005	2006	2007	2008	2009	2010
1	Current	4356.34	4681.94	4794.53	6174.56	6202.86	9763.15
2	Margin deposit	236.58	509.42	486.10	474.03	377.96	251.24
3	Savings	13030.93	14597.67	15244.38	17856.13	19187.64	12430
4	Fixed	1416.38	2136.31	3196.49	3301.01	7101.70	9175.07
5	Call Deposits	294.87	1135.69	925.51	1938.25	3001.57	3563.24
	Total	19335.1	23061.03	24647.01	29743.98	35871.73	35182.7
	% Growth		19.27	6.88	20.68	20.60	-1.92
	Mean	3867.02	4612.21	4929.40	5948.80	7174.35	7036.54
	S.D.	5388.94	5804.38	6024.82	6980.4	7226.19	4972.45
	C.V.%	139.36	125.85	122.22	117.34	100.72	70.67

Source: Annual Report of SCBNL(2004/05 to 2009/10)

Table 4.5 shows that the total deposits grow by 19.27% in FY 2006 but the growth rate reduced to 6.88% in FY 2007. After the tremendous decreased the growth rate sluggishly went up to 20.68% in FY 2007/08. The increase in deposits and reducing investing opportunities leads the bank on canvassing of interest bearing deposit, which resulted in the negative growth rate of deposit i.e., (1.92%) in FY 2009/10.

The C.V calculations show the continuous decrease in the deposits of SCBNL.

C. Deposits, Loans and Investments of SCBNL

The table below shows the relationship between deposits, loans and investment of SCBNL during the study period.

Table 4.6

Deposits, Loans and Investments of SCBNL

S.N.	Purpose	Mid July					
		2005	2006	2007	2008	2009	2010
1	Deposit	19335.09	23061.03	24647.02	29744	35871.72	35182.72
3	Loan & Advance	8143.21	8935.42	10502.64	13718.6	13679.76	15956.96
2	Investment	9702.55	12847.54	13553.23	13902.82	20236.12	19847.51
	Loan to deposits%	42.12	38.75	42.61	46.12	38.14	45.35
	Investment to deposit %	50.18	55.71	54.99	46.74	56.41	56.41
	% Growth of Investment	-	32.41	5.49	2.58	45.55	-1.92
	% Growth of Loan and Advance	-	9.73	17.54	30.62	0.28	16.65

Source: Annual Report of SCBNL(2004/05 to 2009/10)

Table 4.6 shows that out of that the investment growth rate of SCBNL in FY 2009 is increased by 32.41%, where as the increase rate of investment is gone down there after. In the year 2008/09 the investment rate is highly increase by 45.55%. but The lowest growth is seen in the year 2009/10 i.e. -1.92%, This shows the high fluctuation in the investments of the bank during the study period.

Total loan to deposit in 2004/2005 noted as 42.12%, which decreased to 38.75% in the year 2005/2006. The improvement in the banks policies and reductions in CRR policies by the government enables the bank to increase their loans and advance to the growth rate of 42.61% and 46.12% in FY 2006/2007 and 2007/2008 respectively. But it doesn't hold more than one year and again fall down to 38.14% in FY 2008/09. In the year 2009/10 the growth rate was 45.35% .The surplus idle money of the bank is invested in other sectors i.e. treasury bills etc. Here, it is clear that when the loan percentages decrease the investments at that particular period

increases. The bank makes it clear in their annual reports that the investing opportunities are reducing, which force them to avoid excess amount of interest bearing deposits.

Figure 4.2

Deposit, Loan & Advance and Investment of NSCBL

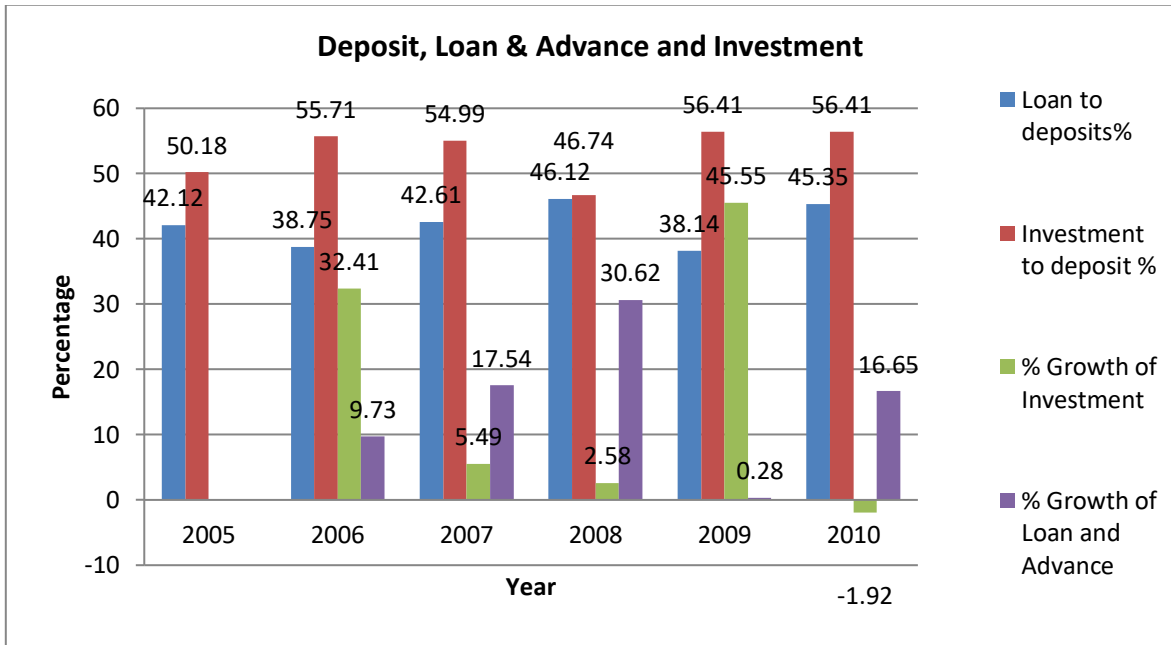


Figure 4.2 shows that rate of loan to deposit rate is fluctuating on study period . on FY 2004/05 the rate is 42.12% and on FY 2005/06 the rate is decrease on 38.75% and again the rate is increase to 42.61% and 46.12% on 2006/07 and 2007/08. but the rate is decrease to 38.14 % on 2008/09 and again increase to 45.35% on 2009/10. It shows that these study period investment on deposit rates are also fluctuating. On FY 2004/05 and 2005/06 the rate is 50.18% and 55.71% but on FY 2006/07 and 2007/08 the rate is slightly decrease to 54.99% and 46.74%. Then again the rate is increase to 56.41.

The Growth rate of loan is highly fluctuation on these period an growth rate of Investment is also highly fluctuation. It shows that at these period the investment on loan and advance and Investment on other sector both are not constant.

1.3 SOURCES AND USED OF FUNDS OF NABIL BANK NEPAL LIMITED.

A. Performances Highlights of Nabil bank

Table: 4.7

Sources and Uses of Funds of Nabil Bank Limited

Rs. In Million

Sources	Mid July					
	2005	2006	2007	2008	2009	2010
Capital & reserve	167.67	1874.99	2057.05	2437.20	3130.24	3834.75
Deposits	14586.61	19347.40	23342.29	31915.05	37348.26	46410.70
Borrowings	17.06	173.20	882.57	136	1681.31	74.90
Other Liabilities	925.02	934.37	971.48	1180.51	1407.6	1529.58
Uses						
Liquid funds	1427.81	2365.14	1963.36	4623.50	3925.40	4518.24
Investments	4267.23	6178.53	8945.31	9939.77	10826.38	13670.92
Loans & advances	10586.17	12922.54	15545.78	21365.05	27589.93	32268.87
Others Assets	543.88	544.67	512.05	606.39	864.70	912.67
Profit after tax	520.11	635.26	673.96	746.47	1031.05	1139.10

Source: Annual Report of SCBNL(2004/05 to 2009/10)

Table 4.7 shows that the bank has been able to augment its net profit by 10.48% to 1139.10 million as compared to Rs.1031.05 million posted last year. It was increased remarkably by 22.14% in FY 2006. The levels of advances have gone up to Rs.13670.92 million from Rs.10826.38 million, registering a growth of 26.27 % over previous year.

Here, the index analysis on total investment of nabil Bank is chosen the FY 2004/2005 as the base year. The bank has also the portfolio of investment including loan and advance, government securities and share and debentures. The index of

loan and advance, deposit and investment are in increasing almost in all the year, but the increasing rate is fluctuating.

B. Deposits of Nabil Bank Limited.

Table: 4.8

Deposits of Nabil Bank Limited

Rs. In Million

S. N.	Purpose	Mid July					
		2005	2006	2007	2008	2009	2010
1	Current	2799.18	2910.59	3395.24	5284.37	5480.53	7904.62
2	Margin deposit	296.98	322.90	312.06	361.78	463.02	629.86
3	Savings	7026.33	8770.76	10187.35	12159.97	14620.41	13783.59
4	Fixed	2078.54	3449.09	5435.19	8464.09	8310.71	14711.16
5	Call Deposits	2341.33	3851.16	3961.63	5563.44	8438.27	9295.06
	Total	14586.61	19347.40	23342.29	31915.05	37348.26	46410.70
	% Growth		32.64	20.65	36.73	17.02	24.26
	Mean	2431.10	3224.57	3890.38	5319.18	6224.71	7735.12
	S.D.	2554.82	3157.36	3737.25	4663.86	5509.96	6272.14
	C.V.%	105.09	97.92	96.06	87.68	88.52	81.09

Source: Annual Report of Nabil bank(2004/05 to 2009/10)

Table no. 4.8 shows that, it is found that the total deposits grow by 32.64% in FY 2005 but the growth rate reduced to 20.65% in FY 2006. After the tremendous decreased the growth rate sluggishly went up to 36.73% in FY 2007/08 and the growth rate is decrease to 17.02% in FY 2008/2009. Then FY 2009/2010 the growth rate is again increase to 24.26%. The C.V calculations show the continuous decrease in the deposits of Nabil.

C. Deposits, Loans and Investments of Nabil

The table below shows the relationship between deposits, loans and investment of NBL during the study period.

Table 4.9

Deposits, Loans and Investments of NBL

S.N.	Purpose	Mid July					
		2005	2006	2007	2008	2009	2010
1	Deposit	14586.6 1	19347.40	23342.29	31915.05	37348.26	46410.70
2	Loan & Advance	10586.1 7	12922.54	15545.78	21365.05	27589.93	32268.87
3	Investment	4267.23	6178.53	8945.31	9939.77	10826.38	13670.92
	Loan to deposits%	72.57	66.79	66.60	66.97	73.87	69.53
	Investment to deposit %	29.25	31.93	38.32	31.14	28.99	29.46
	% Growth of Investment		44.79	44.78	11.12	8.92	26.27
	% Growth of Loan and Advance		22.07	20.30	37.43	29.14	16.92

Source: Annual Report of NBL(2004/05 to 2009/10)

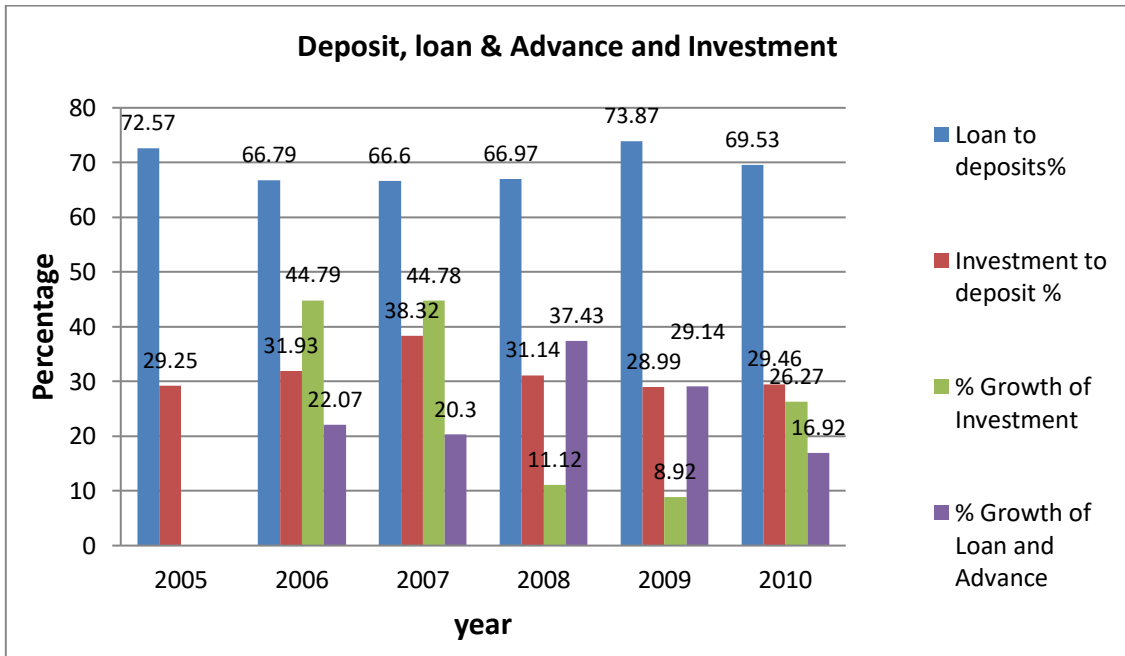
Table 4.9 shows that it is found out that the investment growth rate of nabil bank in FY 2008 is increased by 37.43%, where as the increase rate of investment is gone down there after. This shows the high fluctuation in the investments of the bank during the study period.

Total loan to deposit in 2004/2005 noted as 72.57%, which decreased to 66.79% in the year 2005/2006. The improvement in the banks policies and reductions in CRR policies by the government enables the bank to increase their loans and advance to the growth rate of 66.60% and 66.97% in FY 2006/2007 and 2007/2008 respectively. But growth rate is highly increase by 73.87 in FY 2008 but it doesn't hold more than one year and again fall down to 69.53% in FY 2009/10..The surplus

idle money of the bank is invested in other sectors i.e. treasury bills etc. Here, it is clear that when the loan percentages decrease the investments at that particular period increases. The bank makes it clear in their annual reports that the investing opportunities are reducing, which force them to avoid excess amount of interest bearing deposits.

Figure 4.3

Deposit, Loan & Advance and Investment of NBL



In Figure 4.3 shows that the loan on deposit rate is fluctuation on during the study period. The rate on FY 2004/05 to 72.57 and the rate is decrease to 66.79% and 66.6% on FY 2005/06 and 2006/07 and again the rate is increase to 66.97 and 73.87 on FY 2007/08 and 2008/09. Then again the rate is decrease to 69.53% on 2009/2010.

likewise, loan on investment rate is increasing trend on FY 2004/05 to 2006/07 to 29.25%,31.93% and 38.32%. Then FY 2007/08 and 2008/09 the rate is decrease to 31.14% and 28.99% and again FY 2009/10 the rate is slightly increase to 29.46 %.

Growth rate of investment is not much up and down in the study period higher .On FY 2005/06 and 2006/07 are similar to 44.79% and 44.78%. but on 2007/08 and 2008/09 the rate is goes down to 11.12% and 9.82%.Then again on 2009/10 the rate is increase to 26.27%.

as same as loan increase rate has also not much more different on FY 2005/06 and 2006/07 to 22.07% and 20.03%.Then on 2007/08 the rate increasing highly on 37.43% again on FY 2008/09 and 2009/10 the rate decrease to 29.14% and 16.92%.

2. FINANCIAL AND STATISTICAL ANALYSIS

Financial and statistical analysis is done by calculating some different types of financial and statistical ratios, which are important from the point view to analyze deposits and loans of NSBL and NBL. The related ratios are only calculated and all the calculations are done in Microsoft Excel.

2.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, with drawls, pay maturity in time and convert non-cash assets into cash to satisfy immediate needs the preparation of cash budget but liquidity ratios by establishing a relationship between cash and other current assets to current obligations, which provide a guide measure of liquidity.

2.1.1 Cash and Bank Balance to Total Deposit Ratio (Cash Reserves Ratio)

Cash and bank balance to total deposit ratio measures the availability of a banks highly liquid or immediate funds to meet its unanticipated calls on all types of deposits. Cash and bank balance are assets that constitute the bank's first line of

defense and consist of cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held abroad.

Higher the ratio, the greater will the ability of the bank to meet sudden demand of deposit. But every high ratio is not desirable since bank to pay interest on deposits. This will also maximize the cost of fund to the bank.

We have,

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

Cash and bank balance to total deposit ratio of NSBL, NBL and SCBNL from FY 2004/05 to FY 2009/10 are given below in Table no. 4.14

Table no. 4.10

Cash and Bank Balance to Total Deposit

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Nabil Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Cash & Bank Bal.	Total Deposit	Ratios %	Cash & Bank Bal.	Total Deposit	Ratios %	Cash & Bank Bal.	Total Deposit	Ratios %
2005	723.75	8654.77	8.36	559.38	14586.61	3.83	1111.12	19335.1	5.74
2006	1118.15	11002.04	10.16	630.24	19347.1	3.26	1276.24	23061.03	5.53
2007	1122.69	11445.29	9.81	1399.83	23342.29	6.00	2021.02	24647.02	8.20
2008	1342.96	13715.39	9.79	2671.14	31915.05	8.37	2050.24	29744.00	6.89
2009	1903.90	27957.22	6.81	3372.52	37348.26	9.03	3137.16	35871.72	8.75
2010	3441.26	34896.42	9.86	4772.62	46410.70	10.28	1929.30	35182.72	5.48
Total			54.79			40.77			40.54
Mean			9.13			6.80			6.77
S.D.			1.30			2.88			1.43
C.V.%			14.25			42.39			21.14

Source: Annual Report of Banks(2004/05 to 2009/10)

Table 4.10 shows that, reveals that cash and bank balance to total deposit ratios of all the banks are fluctuating. NSBL has increasing trend till 2006/2007. The ratio increases from 8.36% to 10.16% in FY 2005/2006. The ratio decreases from 10.81% in FY 2005/2006 to 6.81% in FY 2008/09. Then again the ratio is increase to 9.86% on 2009/2010

In case of average, it is found that cash and bank balance to total deposit ratio is almost same but in comparison, SCBNL has maintained higher ratio. The mean ratio of SCBNL is 6.77%, mean ratio of NSBL is 9.13% and mean ratio of Nabil is 6.80%. The C.V.% of NSCBL is 21.14%, which is higher than 14.25% of NSBL and lower than 42.39% of NBL Bank. It shows that the cash and bank balance ratio of SCBNL is more heterogeneous than others.

Comparatively, NSBL has maintained highest ratio, it shows that the improvement or execute modification on the better position regarding the meeting of the demand of its customers on their deposit at any time. That means it operates in higher risks. Through high ratio indicates its high ability but high ratio shows inefficiency, as it has to pay more interest on deposit. Thus, NSBL may invest in more productive sectors like short-term marketable security, treasury bills etc. to build up strong and efficient liquidity position.

2.1.2 Investment on Government Securities to Current Assets Ratio

The major objective of this ratio is to examine that portion of commercial bank's current assets, which is invested on various government securities issued by government. More or less, each commercial bank is interested to invest their collected fund on different government securities in different times to utilize their excess funds and on for other purpose. The government securities are safest place to invest. But government securities are not so much liquid as cash and bank balance.

They can be easily sold in the market and they can be converted into cash in other ways.

We have,

Investment of Government Securities to Current Asset Ratio =

Investment on G.S.

Current Assets

The table no. 4.11 given below shows the investment on G.S. to current asset ratio of NSBL, Nabil and SCBNL.

Table 4.11

Investment on Government Securities to Current Asset Ratio %

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Nabil Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Inv. On Govt.Secu.	Current Assets	Ratios %	Inv. On Govt.Secu.	Current Assets	Ratios %	Inv. On Govt.Secu.	Current Assets	Ratios %
2005	2588.14	9896.56	26.15	2413.94	16825.09	14.35	7203.06	21822.17	33.01
2006	3591.77	12369.12	29.04	2301.46	22010.88	10.46	8635.97	25675.03	33.64
2007	2345.58	13803.98	16.99	4808.35	26966.49	17.83	7107.94	28471.11	24.97
2008	3035.55	17067.22	17.79	4646.88	36534.72	12.72	8137.62	33218.51	24.50
2009	3306.57	30663.10	10.78	3706.10	43206.41	8.58	9998.75	40450.18	24.72
2010	4313.32	37629.43	11.46	7941.56	51370.7	15.46	8531.52	40094.78	21.28
Total			112.21			79.4			162.12
Mean			18.70			13.23			27.02
S.D.			7.50			6.79			5.07
C.V			40.11			51.34			18.76

Source: Annual Report of Banks(2004/05 to 2009/10)

Table 4.11 shows that all the banks have invested in the government securities through out the study period. The investment in government securities to current assets ratio of the banks are fluctuating, ratios for NSBL shows more fluctuations than NBL and SCBNL. Till the FY 2005/2006 is shows increasing trend i.e., 26.15% and 29.04% FY 2004/2005 and 2005/2006 respectively. In FY 2006/07 the ratio decreases to 16.99% . It slightly increased in 2007/08 to 17.79% and again decreased to 10.78% in 2008/2009 and again increase in 2009/2010 to 11.46%. For NBL, the investment on government securities ratio is 14.35% in 2004/2005 and 2005/2006 the rate is decrease to 10.46% on 2005/2006. The ratio increases in FY 2006/07 to 17.8% and again decrease in 12.72% and 8.58% on 2007/2008 and 2008/2009 then again increase to 15.46% on 2009/2010, respectively. During the study period NBL has maintained the highest ratio of 17.8%. For SCBNL, the investment on government securities ratios is in decreasing trend. It is almost similar in 2007/2008 to 2008/2009. It is slightly fluctuation. In 2004/2005 and 2005/2006 to 33.01 and 33.64 and then decrease to 24.97 on 2006/2007. again decrease to 24.50 and again increase to 24.72 on 2008/2009 and again decrease to 21.28 on 2009/2010. During the study period SCBNL has maintained the highest ratio of 33.64% in FY 2005/2006.

In overall the mean ratio of SCBNL is higher than that of NBL and NSBL i.e., $27.02 > 18.70 > 13.23$. It means SCBNL has invested its as much portion of its current assets. The C.V.% of NBL is more than that of SCBNL and NSBL i.e. $51.34\% > 40.11\% > 18.76\%$, which means that the variability of ratio of NBL is less homogenous than that of NSBL and NSCBNL.

In conclusion, NBL has invested more portions of current assets as government securities than NSBL and NSCBL. Lastly, it is concluded that NBL has liquidity portion, from the view point of investment on government securities is slightly poorer.

2.1.3 Loans & Advances to Current Assets Ratio

Loans and advances are also included to the current assets of commercial banks because generally it provides short-term loan, advances, overdrafts, cash-credit, local and foreign bill purchased and discounted.

To make a high profit mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loans and advances to the customers. If sufficient loans and advances are not granted, it should pay interest on those unutilized fund and may lose some earnings, but high loans & advances may also be harmful to keep the bank in liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan and advances in appropriate level to find out portion of current asset, which is granted as loan and advances.

We have,

$$\text{Loan and Advances to Current Asset Ratio (\%)} = \frac{\text{Loan \& Advances}}{\text{Current Asset}}$$

The table 12 below shows the ratio of loan & advances to current asset ratio of NSBL, Nabil and SCBNL.

Table 4.12

Loans & Advances to Current Assets Ratio %

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Nabil Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Loan & Advance	Current Assets	Ratios %	Loan & Advance	Current Assets	Ratio %	Loan & Advance	Current Assets	Ratio %
2005	6213.88	9896.56	62.79	10586.17	16825.09	62.92	8143.21	21822.17	37.32
2006	7626.74	12369.12	61.66	12922.54	22010.88	58.71	8935.42	25675.03	34.80
2007	9460.45	13803.98	68.53	15545.78	26966.49	57.65	10502.64	28471.11	36.89
2008	12113.70	17067.22	70.98	21365.05	36534.72	58.48	13718.60	33218.51	41.30
2009	15131.75	30663.10	49.35	27589.93	43206.41	63.86	13679.76	40450.18	33.82
2010	17480.55	37629.43	46.45	32268.87	51370.7	62.81	15956.95	40094.78	39.80
Total			359.76			364.43			223.93
Mean			59.96			60.74			37.32
S.D.			10.00			2.74			2.86
C.V			16.69			4.51			7.65

Source: Annual Report of Banks(2004/05 to 2009/10)

Table no 4.16 shows that loans & advances to current asset ratio of NSBL are in fluctuating trend during the study period. It decreased from 562.79% in FY 2004/2005 to 61.66% in FY 2005/2006, but increase to 68.53% and 70.98 in FY 2006/2007 to 2007/2008. Again the ratio moves downward to 49.35 % and 46.45% in FY 2008/09 and 2009/2010. This shows the high fluctuations in the loans and advances of NSBL. The highest ratio is maintained by NSBL in FY 2007/2008 i.e., 70.98%. Similarly, in case of NBL the loan and advances to current asset ratio is fluctuating during the study period but fluctuation rate is not high. The highest ratio of NBL is also maintained in to 63.86% in FY 2008/2009 and the lowest ratio is 57.65% in FY 2006/07. The fluctuation rate is higher in SCBNL than others. Its highest ratio is 41.30% in FY2007/08 and lowest ratio is 33.82% in FY 2008/09.

While examining the mean ratio SCBNL has maintained lower ratio of 37.32% than that of NSBL and NBL. On the other hand, coefficient of variance of NSBL is higher than that of NSCBL and NBL i.e., $16.69 > 7.65 > 4.51$, which indicate that high consistency of NBL's ratios in comparison of others.

Finally, it can be said that banks are not poor to mobilize their funds as loan and advances to current asset. The mean ratio of NBL is higher; it reveals that their liquidity position with regard to this ratio is satisfactory.

2.2. Asset Management Ratio

Asset management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets properly to make high profit.

2.2.1 Loan and Advances to Working Fund Ratio

Loan and advances is an important part of total asset (total working fund). Commercial bank must be very careful in mobilizing in total assets. As loan & advances in appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets loan and advances for the purpose of income generation. A high ratio indicates better in mobilizing of funds as loan and advances and vice versa.

We have,

$$\text{Loan \& Advances to total Working Fund Ratio} = \frac{\text{Loan \& Advances}}{\text{Total working fund}}$$

The table below shows the loan and advances to total working fund ratio of NSBL, Nabil and SCBNL.

Table: 4.13

Loan and Advances to Working Fund Ratio

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Nabil Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Loan & Advance	Total Working Fund	Ratios %	Loan & Advance	Total Working Fund	Ratios %	Loan & Advance	Total Working Fund	Ratios %
2005	6213.88	10345.37	60.06	10586.17	17186.33	61.60	8143.21	21893.58	37.19
2006	7626.74	13035.84	58.51	12922.54	22329.97	57.87	8935.42	25776.33	34.67
2007	9460.45	13901.20	68.05	15545.78	27253.39	57.04	10502.64	25596.69	41.03
2008	12113.70	17187.45	70.48	21365.05	37132.76	57.54	13718.60	33335.79	41.15
2009	15131.75	30916.68	48.94	27589.93	43867.40	62.89	13679.76	40587.47	33.70
2010	17480.55	38047.68	45.94	32268.87	52150.24	61.88	15956.95	40213.32	39.68
Total			351.98			358.82			227.42
Mean			58.66			59.80			37.90
S.D.			9.86			2.59			3.22
C.V			16.81			4.33			8.50

Source: Annual Repest of Banks(2004/05 to 2009/10)

Table 4.13 shows that the loan & advances to total working fund ratios of all banks are exhibits fluctuating trend. The ratio of NSBL and NBL are higher than SCBNL. NBL has highest ratio of 62.89% in FY 2008/2009 and lowest of 57.4% in FY 2007/08 during the study period. Similarly, the highest ratio for NSBL is 70.48% in FY 2008/2009 and lowest is 45.94% in FY 2009/10. SCBNL has the comparatively lower rate than NSBL and Nabil bank. It has highest ratio of 36.9% in FY 1997/98 and lowest ratio in FY 25.7% in 2003/04. All the bank's ratio are continuously fluctuating. NSBL has the highest ratio of loan and advances to total working fund ratio.

In average, NBL has maintained slightly higher loan and advances to total working fund ratio than NSBL and SCBNL i.e., 59.80% > 58.66% > 37.90%. There is no much

differences in the position of first two banks. The coefficient of variation of NSBL is greater than that of NSCBL and NBL i.e., 16.81% > 8.50% > 4.33%. It shows that loan and advances to working fund ratio of NSBL is more variable than others.

From the above analysis, it is concluded that all the banks have mobilizing working fund, as loan and advances is satisfactory.

2.2.2 Investment on Government Securities to Total Working Fund Ratio

All the fund of the bank is never used as loan and advances. A bank mobilizes its fund in various ways. To some extent commercial banks seems to utilize its fund by purchasing Government Securities. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as invest on government securities and vice versa.

We have,

Invest on Govt. securities to Working Fund Ratio =

Invest on Government securities

Total working fund

Investment on government securities to total working fund ratio of NSBL, Nabil and SCBNL from FY 1997/98 to 2003/04 are given in the table below.

Table: 4.14

Investment on Government Securities to Total Working Fund Ratio

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Nabil Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Investment on Govt. Sec	Total Working Fund	Ratios %	Investment on Govt. Sec	Total Working Fund	Ratios %	Investment on Govt. Sec	Total Working Fund	Ratios %
2005	2588.14	10345.37	25.02	2413.94	17186.33	14.05	7203.06	21893.58	32.90
2006	3591.77	13035.84	27.55	2301.46	22329.97	10.31	8635.97	25776.33	33.50
2007	2345.58	13901.20	16.87	4808.35	27253.39	17.64	7107.94	25596.69	27.77
2008	3035.55	17187.45	17.66	4646.88	37132.76	12.51	8137.62	33335.79	24.41
2009	3306.57	30916.68	10.70	3706.10	43867.40	8.45	9998.75	40587.47	24.64
2010	4313.32	38047.68	11.34	7941.56	52150.24	15.23	8531.52	40213.32	21.22
Total			109.14			78.19			164.44
Mean			18.19			13.03			27.41
S.D.			6.91			3.34			4.95
C.V			38.01			25.63			18.05

Source: Annual Report of Banks(2004/05 to 2009/10)

Table 4.14 shows that investment on government securities to working fund ratio for NSBL was 25.02% in FY 2004/2005, which increase to 27.55 in 2005/2006. then reduced to 16.87% in FY 2006/2007 and again increase In FY 2007/2008 it again falls down to 10.70% and increase 11.34% on 2009/2010. It indicates that there is a continuous fluctuation in the ratios of NSBL.

NBL has maintained the highest investment on government securities to working fund ratio in FY 2009/10 i.e.15.23% and lowest in FY 2007/2008 i.e.8.45%. The ratios of NBL are also shows the fluctuating trend during the study period.

SCBNL has the continuous decreasing trend of this ratio. It has the highest ratio in beginning FY 2004/2005 of the study period and lowest ratio in last FY2009/10 of the study period.

In average, SCBNL has maintained highest mean value and NBL has maintained higher than that of NSBL i.e., 27.41% > 18.19% > 13.03%, which indicates that the position of SCBNL is better in this regard. The coefficient of variation for NSBL is higher than both banks. So, it is more variable than others.

2.2.3 Investment on Shares and Debentures to Total Working Fund Ratio

Commercial banks are investing into shares and debentures of other companies. Though, the investment in government securities is relatively safer than investment in shares and debentures of other company. Investment on shares and debentures to total working fund ratio shares to what extent the bank has successfully invested its asset on other company's debentures and shares to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on shares and debentures.

We have,

Investment on Shares & Debentures to Total working Fund Ratio =

Investment on shares & debentures

Total working fund

Table 4.15

Investment on Shares and Debentures to Total Working Fund Ratio

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Nabil Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Investment on Share & debt.	Total Working Fund	Ratios %	Investment on Share & debt.	Total Working Fund	Ratios %	Investment on Share & debt.	Total Working Fund	Ratios %
2005	19.33	10345.37	0.19	440.28	17186.33	2.56	13.35	21893.58	0.06
2006	19.00	13035.84	0.15	104.19	22329.97	0.47	12.34	25776.33	0.05
2007	31.94	13901.20	0.23	286.35	27253.39	1.05	41.94	25596.69	0.16
2008	32.82	17187.45	0.19	323.24	37132.76	0.87	90.16	33335.79	0.27
2009	32.95	30916.68	0.11	354.10	43867.40	0.81	91.04	40587.47	0.22
2010	37.02	38047.68	0.10	346.86	52150.24	0.67	115.42	40213.32	0.29
Total			0.16			6.43			1.05
Mean			0.03			1.07			0.175
S.D.			0.15			0.75			0.10
C.V			509.68			70.54			59.03

Source: Annual Report of Banks (2004/05 to 2009/10)

Table 4.15 shows that the investment on shares and debentures to total working fund ratios for all the banks are in fluctuating trend. NSBL has the highest ratio of 0.19% in 2004/2005 and lowest ratio of 0.10% in 2009/10. Similarly, for NBL has highest ratio of 2.56 in 2004/2005 and lowest ratio of 0.67 in 2009 then, SCBNL has fluctuating trend .In 2004/2005 ratio is 0.06% and decrease ratio of 0.05% in 2005/2006 and again increase in .027% in 2006/2007 and again decrease in 0.22% in 2008/2009 and again increase in 0.29% in 2009/2010.

2.3 Profitability Ratio

The major objective of all commercial banks is to earn profit. Strictly speaking no bank can survive without profit. Profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investments to different kinds. Sufficient profit is most to have good liquidity, grab investment opportunities, expand banking transaction, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for a bank. Profitability ratios measure the efficiency of a bank. Higher the ratio higher will be the efficiency of bank.

Following ratio, which is related with profit and fund mobilizing is only studied under this heading.

2.3.1 Return on Loan and Advances Ratio

It measures the earning capacity of a commercial banks on its deposits mobilized on loans and advances. Mostly loan and advances includes loan cash credit, overdraft, bills purchased and discounted.

We have,

$$\text{Return on Loan \& advances Ratio} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

The table below shows the return on loans and advances of NSBL, Nabil and SCBNL.

Table 4.16

Return on Loan & Advances Ratio %

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Nabil Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Net Profit	Loan and Advances	Return %	Net Profit	Loan and Advances	Return %	Net Profit	Loan and Advances	Return %
2005	57.39	6213.88	0.92	520.11	10586.17	4.91	536.24	8143.21	6.59
2006	117.00	7626.74	1.53	635.26	12922.54	4.91	658.76	8935.42	7.37
2007	254.91	9460.45	2.69	673.96	15545.78	4.33	691.67	10502.64	6.59
2008	247.77	12113.70	2.05	746.47	21365.05	3.49	818.92	13718.60	5.97
2009	316.37	15131.75	2.09	1031.01	27589.93	3.74	1025.11	13679.76	7.49
2010	391.74	17480.55	2.24	1139.10	32268.87	3.53	1085.87	15956.95	6.80
Total			11.52			24.91			40.01
Mean			1.92			4.51			6.80
S.D.			0.62			0.77			0.56
C.V			32.05			17.02			8.27

Source: Annual Report of Banks

Table 4.16 shows that the return on loans and advances ratio of NSBL is highly fluctuating. There is no consistency during the study period. The return on loan and advances of FY 2004/2005 was .092% but it sluggishly increase to 1.53% and 2069 in fiscal year 2005/2006 and 2006/2007. In 2007/2008 the ratio goes down to 20.5% but it doesn't hold for long and increase to 2.09% and 2024% in FY 2008/09 and 2009/10 respectively.

This analysis depicts that NSBL is really facing the problems in investing their excess funds in profitable loans and advances.

Similarly, for NBL the return on loans and advances are 4.91% constant in FY 2004/2005 and 2005/2006, which reduced to 4.33 and 3.49% in FY 2006/2007 and 2007/2008 and then slightly increase to 3.74 in 2008/2009 and again decrease to 3.53% in FY 2009/2010 respectively.

In average, the mean ratio for SCBNL is more than that of NBL and NSBL. The coefficient of variation of NSBL is more than that of NBL and SCBNL i.e., $32.05 > 17.02 > 8.27$ This shows that SCBNL's ratios are more consistent and uniform than NSBL and NBL.

2.4 Risk Ratio

The possibility of risk makes the banks investment a challenging task. Bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. A bank has to take high risk if it expects high return on its investment. So, the banks operating for high profit, has to accept the risk and manage it efficiently. Through following ratio effort has been made to measure the level of risk of credit.

2.4.1 Credit Risk Ratio

It is very essential for a bank to scrutinize two projects i.e., the risk involved in it to avoid default of non-payment of loan before making investment on them. Banks makes investment by utilizing its collected funds. The risk behind making investment or granting loan or providing is measured by credit risk ratio. Actually credit risk ratio shows the proportion of non-performing assets in total loan and advances of a bank. But due to unavailability of related data, the ratio is calculated with the help of loan & advances and total assets.

We have,

$$\text{Credit risk ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Assets}}$$

The following table shows the comparative credit risk ratio of NSBL, NBL and SCBNL for the FY 2004/2005 to 2009/10

Table 4.17

Credit Risk Ratio %

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Nabil Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Loan & Advance	Total Assets	Ratios %	Loan & Advance	Total Assets	Ratios %	Loan & Advance	Total Assets	Ratios %
2005	6213.88	10345.37	60.06	10586.17	17186.33	61.60	8143.21	21893.58	37.19
2006	7626.74	13035.84	58.51	12922.54	22329.97	57.87	8935.42	25776.33	34.67
2007	9460.45	13901.20	68.05	15545.78	27253.39	57.04	10502.64	25596.69	41.03
2008	12113.70	17187.45	70.48	21365.05	37132.76	57.54	13718.60	33335.79	41.15
2009	15131.75	30916.68	48.94	27589.93	43867.40	62.89	13679.76	40587.47	33.70
2010	17480.55	38047.68	45.94	32268.87	52150.24	61.88	15956.95	40213.32	39.68
Total			351.98			358.82			227.42
Mean			58.66			59.80			37.90
S.D.			9.86			2.59			3.22
C.V			16.81			4.33			8.50

Source: Annual Repost of Banks

Table 4.17 shows that NSBL has maintained the highest credit ratio of 70.48% in FY 2007/2008 and lowest of 45.94% in FY 2009/10. It has followed the fluctuating trend during the study period. Similarly, the credit ratio of NBL and NSCBL is also showing fluctuating trend.

The mean ratios for NSBL and NBL are almost similar but the ratio of SCBNL is very low then others. The mean ratio of NBL is 59.80%, which, is slightly greater than that of NSBL i.e., 58.66%. It is only 37.90% of SCBNL. The C.V. ratio of NSBL is greatest and NBL is lowest among the three banks i.e.,

16.81% > 8.50% > 4.33%. Which indicates that the credit stability of NSBL is inconsistent than NBL and NSCBL.

2.5 Co-efficient of Correlation Analysis and Regression Analysis.

To find out the relationship between deposit and total investment, deposit and loan and advances, this analysis have been used of Karl Pearson's coefficient of correlation.

2.5.1 Co-efficient of correlation and regression between deposits and total investment.

The co-efficient of correlation between deposit and investment is to measure the degree of relationship between two variables. In correlation analysis, deposit is independent variable (x) and total investment is variable (y), the purpose of computing co-efficient of correlation is to justify whether the deposit are significantly used or not.

Regression Analysis is used in the estimation of the strength of the relationship between deposit and loan & advances.

The following table no. 4.22 shows the co-efficient of correlation between deposits and total investment for NSBL and NBL and NSCBL.

Table 4.18

Co-efficient of Correlation between deposit and total investment

Banks	Evaluation Criterions		
	R	P. Er.	6 P. Er.
NSBL	0.98	.0063	.0378
NBL	0.97	0.015	0.09
NSCBL	0.96	0.0195	1.17

In Table 4.18 the coefficient of correlation between deposit (independent) and total investment (dependent) value of 'r' is 0.98 which shows positive correlation for NSBL. The value of r is very higher than the value of 6P.Er. ie, .0378 this shows that the relationship between the deposit and total investment of NSBL is significant.

In case of NBL, coefficient of correlation between deposits and total investment value of 'r' is 0.97. It shows positive relationship between two variables. By considering the probable error since the value of 'r' i.e., 0.97 is more than six times of P.Er. i.e., 0.09 So, we can say that there is significant relationship between total deposits and total investment.

Likewise, SCBNL has also positive relationship between two variables, i.e. 0.96. The value of 'r' is more than the value of 6P.Er. i.e.1.17. This shows that the relationship between the deposit and total investment of SCBNL is not significant.

2.5.2 Co-efficient of correlation and regression analysis between Deposit and Loan & Advances

Deposits have played a very important role in performance of commercial banks and similarly loan and advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan & advances measures the

degree of relationship between these two variables. In this analysis, deposit is independent variable (x) and loan & advances are dependent variable (y).

The following table shows the correlation between deposit and loan & advances of NSBL, NBL and SCBNL.

Table 4.19
Correlation between deposit and Loan & advances

Banks	Evaluation Criteria		
	R	P.Er.	6 P.Er.
NSBL	0.95	0.028	0.168
NBL	1.19	0.115	0.687
NSCBL	0.94	0.033	0.198

In Table 4.19 shows that, it is found that the coefficient of correlation between deposits and loan and advances of NSBL is 0.95. It shows positive relationship between two variables. Further, value of P.Er. is 0.028 and 6P.Er. is 0.168; it shows that the value of 'r' is greater than the value of 6P.Er. which reveals that there is significant relationship between deposit and Loan & Advances in case of NSBL.

In case of NBL, it is found that coefficient of correlation between deposit and loan & advances is 1.19. It shows positive relationship between two variables. The value of 'r' (1.19) is greater than the value of 6P.Er. i.e., 0.687, which shows the significant relationship between deposit and loan & advances of NBL.

Likewise, it is found that the coefficient of correlation between deposit and loan and advances of SCBNL is 0.94. It also shows the positive relationship between two variables. The value of 'r' is greater than the value of 6P.Er. i.e.0.198, which reveals that there is significant relationship between deposit and Loan & Advances in case of SCBNL.

3. Analysis of Primary Data

The primary data analysis has been done through the interview and questionnaires basis. The interpretation of the primary data is presented in this section of the study. The analysis has been presented in the paragraph form to give the clear idea of the analysis.

A. Factor that should be considered while making investment decision.

The basis principals of lending are normally based on availability of resources. Depending on whether the resources are to supplement a borrower, the following factors are taken into account while lending by the bank.

The most important factors contributing to success or failure of a lender is the promoters or person behind the investing project. The experience and the qualification of the promoter.

The government's economic policies can make certain ventures. It is very important to do a sensitivity analysis for an industry/business vis-a-vis the particular industry/business to be financed. The certain industries like cement where proximity to raw material is important or in a labor intensive industry proximity to source of cheap labor is essential. A demand supplies position analysis for the industry must be carried out. Thus, economic policies and industries scenario must be analyzed before investing.

The availability of transportation, roads, power, water, labour etc have a major bearing on viability of the unit. Government restriction like antipollution measure etc may also be understood.

The specific products that an enterprise wants to launch needs to be examined. The technology to be used for manufacture of the product may be an obsolete one high cost of maintenance. Similarly a technology which a latest and cannot be maintained indigenously, may cut into profit margins. All these aspects should be studied carefully.

The factor that should weigh is the security available to them in case of failure of business proposed. It is preferable to option for collateral, which appreciates and is early marketable. Government bonds, property are some of the collateral that are acceptable and which satisfy the requirements. Banks are not expected to finance high-risk ventures and should prefer commercial and established ventures.

It is essential that money should be used and invested for safe and viable ventures, as it is public money that is being invested on their behalf.

Some addition grounds to be measured for lending are.

- ❖ Liquidity
- ❖ Profitability/economical project
- ❖ Borrower's integrity
- ❖ Market viability

B. Banks are maintaining their target deposits or not.

All of three banks have maintained their target deposits and they are having excess than the expectations. But due to the limitations of the productive investment sectors they are trying increase their interest bearing deposits, which may increase their target deposit. From the deposit of NSBL during the study period it is clear that they have upgrade their deposit growth rate in FY 2005/2006 to (141.35%). From NBL also the growth rate of deposit has increase from FY 2005/06 to 32.63%

than FY 2004/2005 This makes clear that both the banks are maintaining their target deposits.

C. Banks are using their deposits properly or not

In using the deposit funds both the banks are trying their best but they are not getting the secure productive opportunities to invest. According to Assistant General Manager (Forex, Treasury & Deposit), the invest opportunities for the banks are very limited due to the external economic factors, unclear guidelines of NRB, and improper management of banks, which is the result to changing government policies.

D. The gap between deposits and credit is increasing rather than decreasing.

- ❖ Commercial banks were cautious in extending loans. The rising non-performing assets in their portfolio and a bit pessimistic view about the economy following the Asian crisis guided such behavior of banks.
- ❖ The corporate sector was not happy with the commercial banks' lending rates at a time business slackness was observed in the economy.
- ❖ The business community also played a role for relatively low demand for bank credit observes the problem with the introduction of VAT.

E. Major portion of deposit are invested in loans and advances.

Major portion of bank's deposits are invested in loan and advances because it is the only profitable sector for long-term investment. The bank doesn't get much profit from other investments. If they failed in recovering loan they get profit from the margin rate in the collaterals securities kept against the loans and advances.

F. Major problems that commercial banks are facing while investing in loan and advances.

A number of factors can be attributed to a lower bank credit off-take in recent years.

I. High Lending Rate

As industries in Nepal are not performing well due to slowdown in economic activities and a host of the factors, they unable to bear the interest rate that is 12% to 13%, which is relatively high. This leads in credit deadlock for the commercial banks.

II. Real Estate Crash

When the real estate business began to decline in 2008/2009, consequent to the crash of real estate not only non-performing assets of commercial banks increased but also the fresh disbursement of loans to these sectors decelerated. The crash in real estate market thus played a role in the deceleration of bank credit growth in recent years.

III. New Economic Policy

The Changing economic policies in Nepal affect adversely to the overall business environment which slowdown in the development of business sectors. The sluggish business growth gives deadlock to the bank's credit.

IV. Nepal government's measures against this problem

Nepalese government is still not showing any strong activities to solve this problem. The internal crisis of Nepal has not been solved yet, which is disturbing the whole economy of Nepal.

V. Bank's Management

The Nepalese commercial banks are also responsible for this problem of credit deadlock as there is very less cooperation is seen between all the commercial banks. They are not moving in same path, each and every bank is performing differently with respect to deposit and loan activities. The second problem is lack of proper managerial power also affecting their lending activities.

4. Major Findings

A. Sources and uses of fund of Nepal SBI Bank Limited

- ❖ The deposit structure of NSBI shows the increasing trend but increasing rate is not same during the study period. The growth rate increase in 2008/2009 to 103.84% from 4.03% in 2006/2007. But it increased to its highest level of 103.84% in FY 2008/09.
- ❖ Loans and advances of NSBL shows continuous increase during the study period. It is recorded as 22.74%, 24.04%, 28.05%, 24.91%, and 15.52% in FY 2005/2006, 2006/2007, 2007/08, 2008/09 and 2009/10 respectively. The C.V% shows high fluctuation in loan and advances during the study period.
- ❖ The investment of NSBL is also fluctuating during the study period. There are highly up and down are seen in investment portfolio of NSBL.

The Nepal SBI Bank's deposits increased highly till 2009/2010, which leads to improve banks' policy. The loan and advance are increasing during the study period.

B. Sources and used of fund of Nabil Bank Limited.

- ❖ The deposits of NBL show increase trend in its growth rate. The amount of deposit is continuously increasing during the study period even though there is a decline in growth rate.

- ❖ In case of NBL, it shows that the percentage growth in loan and advances is lower than investment. The increasing investment and reducing loans and advances from total deposit are great problem for the banks to manage. The fluctuation in deposit, loan and advances & investment makes clear about adjustment problem for the banks.

C. Sources and used of fund of Standard Chartered Bank Nepal Limited.

- ❖ The deposit structure of SCBNL shows the fluctuating trend during the study period. The growth rate reduced in 2009/2010 to -1.92% from 20.68% in 2007/2008. But it increased to its highest level of 20.68% in FY 2007/08. The bank takes measures against it, which results to negative growth of deposit in FY 2009/10.
- ❖ Loans and advances of SCBNL shows highly fluctuating during the study period. It is recorded as 30.62% in FY 2007/2008 and 0.28% in Mid March of 2009. The C.V% shows high fluctuation in loan and advances during the study period.
- ❖ The investment of SCBNL is also fluctuating highly during the study period. The various ups and downs are seen in investment portfolio of SCBNL.

The Standard Chartered Bank's deposits increased till 2008/09, which leads to improve banks' policy. In 2009/10 SCBNL was successful in decreasing its high deposit, but still loans and advances are not growing to its point and banks are investing their excess fund in other sectors.

E. Liquidity Ratio

- ❖ The mean ratio of cash and bank balance to deposit ratio of NSBL is slightly higher than NBL and NSCBL. It states that the liquidity position of NSBL is better in this regard. Similarly the ratio of NSBL is more variable and less consistent than that of others.

- ❖ The mean ratio of investment on government securities to current asset ratio of SCBNL has been found higher than that of NBL and NSBL. However, NSBL seems to have more variable ratios than that of SCBNL and NBL.
- ❖ The mean ratio of loan and advances to current asset of NBL is higher than that of SCBNL and NSBL. But ratios of NSCBL are more variable.

The above result shows that the liquidity position of SCBNL is highly better than NSBL and NBL. It may be in a good position to meet the daily cash requirement but it has to bear high cost of fund. Since investment on government securities of NBL is better than NSBL and less than SCBNL, but higher ratio indicates unstable position of investment. At last, it can be concluded that SCBNL has good deposit collection, it has made enough investment on government securities but it has maintained moderate investment policy on loan and advances.

F. Asset management ratio (Activity Ratio)

- ❖ The loan and advances to working fund ratio of NSBL & NBL are almost similar and SCBNL is lowest. But ratios of SCBNL are more variable than that of NSBL and NBL.
- ❖ The mean ratio of investment on government securities to working fund ratio of SCBNL is greatest among the three banks. On the other hand ratio of SCBNL is less variable than that of NSBL and NBL. The ratio of NSBL is lowest but most variable.
- ❖ NBL has maintained slightly higher mean ratio of investment on shares and debentures to working fund ratio . but this ratio of NBL is very high than others. The ratio of NBL is highly variable than NSBL and SCBNL.

From the above findings, it helps to conclude that SCBNL is comparatively successful in its on-Balance Sheet as well as off-Balance Sheet activities. But in average both the banks are working equality in this regard.

G. Profitability Ratio

- ❖ The mean ratio of return on loan and advances of NSBL is lower than that of NBL and SCBNL. SCBNL has the highest ratio among three banks. But there is high level of inconsistency in the ratio of NSBL.

H. Risk Ratio

- ❖ The average credit ratio of NSBL and NBL are similar, but highly fluctuation in ratio of NSBL is higher than NBL. In the case of SCBNL, the ratio is lowest and the fluctuation in ratio is not much more highest.

From the results of risk and profitability analysis, it is found that SCBNL is in better position than others.

I. Co-efficient of Correlation and Regression analysis

- ❖ Co-efficient of correlation between deposit and investment of NSBL is higher than NBL and NSCBL. Regression analysis shows positive rate of change for both the banks. NSCBL has the lowest correlation.
- ❖ NSBL and SCBNL have almost same value of co-efficient of correlation between deposit and loan & advances. The co-efficient to correlation of NBL is higher than others.

From the above analysis, it can be concluded that there is significant relationship between deposit, investment and loan & advances of both the banks.

J. Analysis of Primary data

- ❖ The banks consider various possible factors while making investment decisions viz. projects reliability, safety, security etc.
- ❖ Both the banks are maintaining their target deposit but due to limited investing opportunity they are unable to use their funds in profitable sectors.

- ❖ There is continuous gapping between deposit and credit due to various internal and external factors.
- ❖ Major portion of banks' deposit are invested in loan and advances because it is more profitable sector.
- ❖ Commercial banks are facing various problems while investing in loan and advances like high lending rates, real estate crash, problem in carpet industry, new economic policy and unclear NRB's policies.
- ❖ Unstable Nepalese government and lack of managerial power are also stands as a major problem for commercial banks to make liberal investing decision.

The above analysis shows that the commercial banks in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these banks.

CHAPTER –V

SUMMARY CONCLUSION AND RECOMMENDATION

This chapter highlights some selected actionable conclusions and recommendations on the basis of the main findings, which are derived from the analysis of NSBL, NBL and SCBNL. In order to carry out this study, data have been basically obtained by the primary and secondary sources. The analysis is performed with the help of financial tools and statistical tools and is associated with comparison and interpretation.

1. Summary

In this study, the variable analysis and interpretation have been done. The mathematical financial calculation have been done by using financial tools-ratio analysis viz. liquidity ratio, asset management ratios, profitability ratios, growth ratios and statistical tools like percentage, mean, standard deviation, co-efficient of correlation and regression analysis have been used for the analysis and interpretation of the data. The data, which were employed in this research, are primary and secondary in nature. They are obtained from annual reports and structured interview taken from the banks' officials. The analysis has been done from FY 2004/2005 to FY 2009/10.

The deposits and its investment in productive sectors by commercial banks are not stable. They are not earning more profit for commercial banks. The increasing deposit are idle in the banks and in turn they are investing these funds in other sectors as government securities as maximum of 4% interest rate while the cost of fund they are bearing is 6%, but it is better than nothing for the commercial banks. A decline in overall business market, sluggish performance of industry and slowdown in tourism sector accounted for such a deceleration in the commercial

bank activities. Nepal SBI bank's deposits increased highly from FY 2004/2005 to 2009/10, still loans and advances are not growing to its point and banks are investing their excess fund in other sectors. In case of NBL and SCBNL, the percentage growth in loan and advances is lower than investment. The increasing investment and reducing loans and advances from total deposit are great problem for the banks to manage. The fluctuation in deposit, loan and advances & investment makes clear about adjustment problem for the banks. The liquidity position of NBL and SCBNL are better than NSBL. It may be in a good position to meet the daily cash requirement but it has to bear high cost of fund. Since SCBNL's investment on government securities is better than NSBL and NBL but higher ratio indicates unstable position of investment. At list, it can be concluded that SCBNL has good deposit collection, it has made enough investment on government securities but it has maintained moderate investment policy loan and advances. SCBNL is comparatively successful in its on-balance sheet as well as off-balance sheet activities. However, in average all of three banks are working equally in this regard. Risk and profitability analysis shows that SCBNL is in better position and NSBL is in worse position and correlation analysis shows there is significant relationship between deposit, investment and loan & advances of both the banks. There is no significance difference between deposit and loan and advances and between deposit and investment of both the banks.

The commercial banks in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the banks are not making open investments.

Therefore, these banks should formulate new investment strategies. They should launch the intensive programs to encourage borrowers. The commercial banks should talk to NRB to make clear and new policies keeping in view the problem these banks are facing. These banks should take this problem seriously.

2. Conclusion

Liberal economic policy of government has encouraged the establishment and growth of commercial banks in the country with in short spam of time. In Nepal there are 26 registered commercial banks and branches all over the country, but now some branches are reduce and merge with other branches due to lack of proper security.

The commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors. The deposits and its reinvestment in productive sectors by commercial banks are not stable. They are not earning more profit for commercial banks. The increasing deposits are idle in the banks and in turn, they are investing these funds in other sectors as government securities at maximum of 4% interest rate while the cost of fund they are bearing is 6%, but it is better than nothing for the commercial banks. A decline in overall business market, sluggish performance of industry and slowdown in tourism sector accounted for such a deceleration in the commercial bank activities. Nepal SBI bank's deposits increased highly till 2009/10, but still loans and advances are not growing to its point and banks are investing there excess fund in other sectors. In case of NBL and SCBNL, the percentage growth in loan and advances is lower than investment. The increasing investment and reducing loans and advances from total deposit are great problem for the banks to manage. The fluctuation in deposit, loan and advance & investment makes clear about adjustment problem for the banks. The liquidity position of NSCBL is higher than others. The liquidity position of NBL it is slightly better than NSBL. It may be in a good position to meet the daily cash requirement but it has to bear high cost of fund. Since investment on government securities is better but higher ratio indicates unstable position of investment. At last, it can be concluded that SCBNL has good deposit collection, it has made enough investment on government securities but it has maintained moderate investment policy on loan

and advances. SCBNL is comparatively successful in its on-balance sheet as well as off-balance sheet activities. But on average both the banks are working equally in this regard. Risk and profitability analysis shows there is a significant relationship between deposit, investment and loan & advances of both the banks. There is no significant difference between deposit and loan and advances and between deposit and investment of both the banks. The commercial banks in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these banks.

Strengthening and the institutionalization of the commercial banks are very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade off by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB, diversity scope of activities for commercial banks, professional culture within commercial banks, etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

The commercial banks in Nepal must work hard to prove that they are really efficient and viable agencies for mobilization of saving and its canalization into productive sectors, are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

3. Recommendations

Based on analysis and findings of the study, following recommendation can be advanced to overcome weakness, inefficiency and improve present fund mobilization and investment strategies of Nepalese commercial banks with regards to NSBL, NBL and SCBNL.

- ❖ The liquidity position of the bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks' directives, the lending policies etc. As NBL has maintained the ratio of cash and bank balance to total deposit lower than that of NSBL and SCBNL, it is recommended to increase cash and bank balance to meet current obligations and loan demand.
- ❖ Through the government, securities issued by government are free of risk of default; such securities yield the lowest interest rates of a particular maturity due to low risk feature. SCBNL has invested more than NBL and NSBL in government securities so, it is recommended to invest in some profitable sectors like providing loan to developing industries as tourism industry etc.
- ❖ The off-balance sheet operation yields high return in terms of commission, discount, fees etc. So, these are very important to the commercial banks. In case of NSBL, it has been found to have failed in utilizing the modern fee-based off-balance sheet activities to the maximum possible extent in comparison to the other banks. So, NSBL is recommended to enhance off-balance sheet transactions in the days to come.
- ❖ Portfolio condition of both the banks should be examined from time to time and attention should be made to maintain equilibrium in the portfolio condition as

far as possible. The investment opportunities to optimize their investment portfolio. Nepal commercial banks should invest in different projects, finance developing industries like tourism with the help government, which provides security to them.

- ❖ The commercial banks should go for some new avenues of investment in consortium like hydro-electricity and infrastructure development of the country etc. This will help in the development of economy as well as banks' operation.
- ❖ For smooth operation of the bank there must be proportional increase or decrease on credit according to deposit, this can be achieved either by discouraging certain deposit or aggressively marketing its loan able funds to existing or potential customers.
- ❖ The commercial banks are supposed to boost foreign investments in the country. However, these banks' do not seem to be successful in this aspect. Therefore, all these banks are recommended to activate for increasing foreign investment in Nepal by means of their wide international banking network.
- ❖ Looking at current trend of banking business, a bank must be careful while formulating marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is recommended that NBL and NSBL should develop innovative approach to banks marketing for its well being and sustainability in the market upgrade the banking facilities as per the changing need of the customers.
- ❖ In the context of commercial banks in Nepal, for speedy development of the kingdom, HMG/N and NRB as well as all the commercial banks are suggested to follow decentralization policy and formulate new plans and policies to develop banks' credit operation like formulating policies regarding investments

in small scale industries, tourism industry, hydro-electricity projects etc. The Nepalese Government should makes policies regarding salaries, various types of incentives for the commercial banks to avoid internal corruptions in the banks.

- ❖ The government before issuing license for the commercial banks should make a market study for the background and reputation of the people establishing a bank, this will help in avoiding the corrupt banking in the country and existing commercial banks will also get benefit from this policies because they do not have to face false competition policies launched by the corrupt banks.

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Annual Report, Standard Chartered Bank Nepal Ltd,	FY 2004/2005 to 2009/2010

Annex - 1(A)

Calculation of Correlation and coefficient between Deposit and Loan & Advance of SBI Bank

Year	Deposit(X)	Loan & Advance(Y)	XY	X ²	Y ²
2004/05	8654.77	6213.88	53779702.21	74905043.75	38612304.65
2005/06	11002.04	7626.74	83909698.55	121044884.2	58167163.03
2006/07	11445.29	9460.45	108277593.8	130994663.2	89500114.2
2007/08	13715.39	12113.70	166144119.8	188111922.9	146741727.7
2008/09	27957.22	15131.75	423041663.7	781606150.10	228969858.1
2009/10	34896.42	17480.55	610008614.6	1217760129.00	305569628.3
Total	107671.13	68027.07	1445161393.00	2514422793.00	867560796.00

Here,

$$\begin{aligned}
 N=6 & \quad \sum X=107671.13 & \quad \sum Y=68027.07 \\
 & \quad \sum X^2=2514422793.00 & \quad \sum Y^2= 867560796.00 \\
 & \quad \sum XY=1445161393
 \end{aligned}$$

Coefficient of correlation (r) can be calculated by using the following formula.

$$\begin{aligned}
 r &= \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}} \\
 &= \frac{6 \times 1445161393 - 107671.13 \times 68027.07}{\sqrt{6 \times 2514422793 - (107671.13)^2} \sqrt{6 \times 867560796 - (68027.07)^2}} \\
 &= \frac{1346416861}{59105.54 \times 24035.03} = 0.95
 \end{aligned}$$

$$\therefore r = 0.95$$

$$\therefore r^2 = 0.898$$

Calculation of Probable Error :

$$\begin{aligned}
 P.Er &= 0.6745 \frac{1-r^2}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1-0.898^2}{\sqrt{6}} = 0.028
 \end{aligned}$$

$$6P.Er = 6 \times 0.028 = 0.168$$

Annex - 1(B)

Calculation of Correlation and coefficient between Deposit and Loan & Advance of NBL Bank

Year	Deposit(X)	Loan & Advance(Y)	XY	X ²	Y ²
2004/05	14586.61	10586.17	154416333.20	212769191.3	1119723.75
2005/06	19347.10	12922.54	250013673.60	374310278.4	166992040.10
2006/07	23342.29	15545.78	362874105.00	544862502.4	241671275.8
2007/08	31915.05	21365.05	681866639.00	1018570417.00	456465361.5
2008/09	37348.26	27589.93	1030435879.00	1394892525.00	761204237.4
2009/10	46410.70	32268.87	1497620845.00	2153953074.00	1041279971.00
Total	172950.01	120278.34	3977227475.00	5699357988.00	2668732610.00

Here,

$$\begin{aligned}
 N=6 & \quad \sum X=172950.01 & \quad \sum Y=120278.34 \\
 & \quad \sum X^2=699357988.00 & \quad \sum Y^2= 2668732610.00 \\
 & \quad \sum XY=977227475.00
 \end{aligned}$$

Coefficient of correlation (r) can be calculated by using the following formula.

$$\begin{aligned}
 r &= \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}} \\
 &= \frac{6 \times 977227475 - 172950.01 \times 120278.34}{\sqrt{6 \times 699357988 - (172950.01)^2} \sqrt{6 \times 2668732610 - (120278.34)^2}} \\
 &= \frac{3061224744}{65455.65 \times 39313.06} = 1.19
 \end{aligned}$$

$$\therefore r = 1.19$$

$$\therefore r^2 = 1.42$$

Calculation of Probable Error :

$$\begin{aligned}
 P.Er &= 0.6745 \frac{1-r^2}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1-0.19^2}{\sqrt{6}} = 0.1146
 \end{aligned}$$

$$6P.Er = 6 \times 0.1146 = 0.6874$$

Annex - 1(C)

Calculation of Correlation and coefficient between Deposit and Loan & Advance of NSCBL Bank

Year	Deposit(X)	Loan & Advance(Y)	XY	X ²	Y ²
2004/05	19335.10	8143.21	157449779.7	373846092.00	66311869.10
2005/06	23061.03	8935.42	206059988.7	531811104.70	79841730.58
2006/07	24647.02	10502.64	258858778.10	607475594.9	110305447.00
2007/08	29744.00	13718.60	408046038.4	884705536.00	188199986.00
2008/09	35871.72	13679.76	490716520.4	1286780296.00	187135833.7
2009/10	35182.72	15956.95	561408903.9	1237823787.00	254624253.3
Total	167841.59	70936.58	2082540009.00	4922442411.00	886419119.70

Here,

$$\begin{aligned}
 N=6 \quad \sum X &= 167841.59 & \sum Y &= 70936.58 \\
 \sum X^2 &= 4922442411.00 & \sum Y^2 &= 886419119.70 \\
 \sum XY &= 2082540009.00
 \end{aligned}$$

Coefficient of correlation (r) can be calculated by using the following formula.

$$\begin{aligned}
 r &= \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}} \\
 &= \frac{6 \times 2082540009.00 - 167841.59 \times 70936.58}{\sqrt{6 \times 4922442411.00 - (167841.59)^2} \sqrt{6 \times 886419119.70 - (70936.58)^2}} \\
 &= \frac{589131677.7}{36930.41 \times 16926.79} = 0.94
 \end{aligned}$$

$$\therefore r = 0.94$$

$$\therefore r^2 = 0.88$$

Calculation of Probable Error :

$$\begin{aligned}
 P.Er &= 0.6745 \frac{1-r^2}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1-0.88^2}{\sqrt{6}} = 0.033
 \end{aligned}$$

$$6P.Er = 6 \times 0.033 = 0.198$$

Annex - 2(A)

Calculation of Correlation and coefficient between Deposit and Investment of NSBL Bank

Year	Deposit(X)	Investment(Y)	XY	X ²	Y ²
2004/05	8654.77	2607.68	22568870.63	74905043.75	6799994.982
2005/06	11002.04	3610.78	39725945.99	121044884.20	13037732.21
2006/07	11445.29	2659.45	30438176.49	130994663.2	7072674.30
2007/08	13715.39	3088.88	42367047.19	188111922.9	9541179.654
2008/09	27957.22	13286.18	371444657.2	781606150.10	176522579.00
2009/10	34896.42	16305.63	569008112.8	1217760129.0	265873569.7
Total	107671.13	41558.6	1075552810	2514422793.0	478847729.8

Here,

$$\begin{aligned}
 N=6 \quad \quad \quad \sum X &= 107671.13 & \quad \quad \quad \sum Y &= 41558.6 \\
 \sum X^2 &= 2514422793.0 & \quad \quad \quad \sum Y^2 &= 478847729.8 \\
 \sum XY &= 1075552810
 \end{aligned}$$

Coefficient of correlation (r) can be calculated by using the following formula.

$$\begin{aligned}
 r &= \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}} \\
 &= \frac{6 \times 1075552810 - 107671.13 \times 41558.6}{\sqrt{6 \times 2514422793 - (107671.13)^2} \sqrt{6 \times 478847729.8 - (41558.6)^2}} \\
 &= \frac{1978658437}{59105.54 \times 33852.17} = 0.98
 \end{aligned}$$

∴ r = 0.98

∴ r² = 0.977

Calculation of Probable Error :

$$\begin{aligned}
 P.Er &= 0.6745 \frac{1-r^2}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1-0.977^2}{\sqrt{6}} = 0.0063
 \end{aligned}$$

6P.Er = 6 × 0.033 = 0.0378

Annex - 2(B)

Calculation of Correlation and coefficient between Deposit and Investment of NBL Bank

Year	Deposit(X)	Investment(Y)	XY	X ²	Y ²
2004/05	14586.61	4267.23	62244419.79	212769191.3	18209251.87
2005/06	19347.10	6178.53	119538491.3	374310278.4	38174232.96
2006/07	23342.29	8945.31	208804020.2	544862502.4	80018571.00
2007/08	31915.05	9939.77	317228256.5	1018570417.00	98799027.65
2008/09	37348.26	10826.38	404346455.1	1394892525.00	117210503.9
2009/10	46410.70	13670.92	634476966.8	2153953074.00	186894053.6
Total	172950.01	53828.14	1746638610.00	5699357988.00	539305641.00

Here,

$$\begin{aligned}
 N=6 & \quad \sum X=172950.01 & \quad \sum Y=53828.14 \\
 & \quad \sum X^2=5699357988.00 & \quad \sum Y^2= 539305641.00 \\
 & \quad \sum XY=1746638610
 \end{aligned}$$

Coefficient of correlation (r) can be calculated by using the following formula.

$$\begin{aligned}
 r &= \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}} \\
 &= \frac{6 \times 1746638610 - 172950.01 \times 53828.14}{\sqrt{6 \times 5699357988.00 - (172950.01)^2} \sqrt{6 \times 539305641.00 - (53828.14)^2}} \\
 &= \frac{1170238160}{65454.86 \times 18394.71} = 0.97
 \end{aligned}$$

$$\therefore r = 0.97$$

$$\therefore r^2 = 0.944$$

Calculation of Probable Error :

$$\begin{aligned}
 P.Er &= 0.6745 \frac{1-r^2}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1-0.944^2}{\sqrt{6}} = 0.015
 \end{aligned}$$

$$6P.Er = 6 \times 0.015 = 0.09$$

Annex - 2(C)

Calculation of Correlation and coefficient between Deposit and Investment of NSCBL Bank

Year	Deposit(X)	Investment(Y)	XY	X ²	Y ²
2004/05	19335.10	9702.55	187599678	373846092.00	94139477
2005/06	23061.03	12847.54	296277505	531811105	165059284
2006/07	24647.02	13553.23	334046731	607475594.9	183690043
2007/08	29744.00	13902.82	413525478	884705536.00	193288404
2008/09	35871.72	20236.12	725904431	1286780296.00	409500553
2009/10	35182.72	19847.51	698289387	1237823787.00	393923653
Total	167841.59	90089.77	2655643209	4922442411.00	1439601414

Here,

$$\begin{aligned}
 N=6 \quad \quad \quad \sum X &= 167841.59 & \quad \quad \quad \sum Y &= 90089.77 \\
 \sum X^2 &= 5699357988.00 & \quad \quad \quad \sum Y^2 &= 539305641.00 \\
 \sum XY &= 2655643209
 \end{aligned}$$

Coefficient of correlation (r) can be calculated by using the following formula.

$$\begin{aligned}
 r &= \frac{N\sum XY - \sum X\sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}} \\
 &= \frac{6 \times 2655643209 - 167841.59 \times 90089.77}{\sqrt{6 \times 4922442411 - (167841.59)^2} \sqrt{6 \times 1439601414 - (90089.77)^2}} \\
 &= \frac{813049915.40}{36930.42 \times 22835.10} = 0.96
 \end{aligned}$$

$$\therefore r = 0.96$$

$$\therefore r^2 = 0.929$$

Calculation of Probable Error :

$$\begin{aligned}
 P.Er &= 0.6745 \frac{1-r^2}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1-0.929^2}{\sqrt{6}} = 0.195
 \end{aligned}$$

$$6P.Er = 6 \times 0.195 = 1.17$$