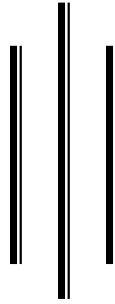


**A STUDY ON INVESTMENT AND LOAN PATTERN  
OF NEPALESE COMMERCIAL BANKS  
(With References To Nepal SBI Bank Limited, Everest Bank Limited  
And Standard Chartered Bank Nepal Limited)**



*Submitted By:*

**SANAD GHIMIRE**

**SHANKER DEV CAMPUS**

T.U. Registration No.: 7-2-39-99-2000

Campus Roll No.: 653/061

Exam Roll No: 10042

**A THESIS**

*Submitted to:*

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the degree of  
**Master of Business Studies (M.B.S.)**

**Kathmandu, Nepal**

**April, 2011**

## **RECOMMENDATION**

This is to certify that the Thesis.

Submitted by:

**SANAD GHIMIRE**

Entitled:

**A STUDY ON INVESTMENT AND LOAN PATTERN  
OF NEPALESE COMMERCIAL BANKS  
(With References To Nepal SBI Bank Limited, Everest Bank Limited  
And Standard Chartered Bank Nepal Limited)**

has been prepared as approved by this Department in the prescribed format of the  
Faculty of Management. Thesis is forwarded for examination.

.....  
Ruchila Pandey  
(Thesis Supervisor)

.....  
Prof. Bisheshwor Man Shrestha  
(Head of Research Department)

.....  
Prof. Dr. Kamal Deep Dhakal  
(Campus Chief)

## **VIVA- VOCE SHEET**

We have conducted the viva- voce examination of the thesis

Presented by:

**SANAD GHIMIRE**

*Entitled:*

**A STUDY ON INVESTMENT AND LOAN PATTERN  
OF NEPALESE COMMERCIAL BANKS  
(With References To Nepal SBI Bank Limited, Everest Bank Limited  
And Standard Chartered Bank Nepal Limited)**

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 requirement for Master Degree of Business Studies (M.B.S.)

### **Viva-Voce Committee**

**Head, Research Department** -----

**Member (Thesis Supervisor)** -----

**Member (External Expert)** -----

## **DECLARATION**

I, hereby, declare that the work reported in this thesis entitled "**A Study on Investment and Loan Pattern of Nepalese Commercial Bank (With References to Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Limited.)**" submitted to the Central Department of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Mrs. Ruchila Pandey of shanker Dev Campus.

**SANAD GHIMIRE**

**Researcher**

**SHANKER DEV CAMPUS**

T.U. Registration No.: 7-2-39-99-2000

Campus Roll No.: 653/061

Exam Roll No: 10042

## **ACKNOWLEDGEMENTS**

This thesis entitled "**A Study on Investment and Loan Pattern of Nepalese Commercial Bank (With References to Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Limited.)**" has been prepared in the form as required by the institute of management for the partial fulfillments to the requirement in the Master's Level in Business Studies.

I consider it is my duty to express sincere gratitude to the thesis advisor **Mrs. Ruchila Pandey** Shanker Dev Campus, Tribhuvan University for the guidance and valuable suggestions. It is true that without his excellent supervision, it would have been impossible to prepare this thesis in this form.

I would like offer my profound gratitude to respected parents who spent their entire life to make me what I am today. I am always indebted to them. I would like to offer my profound gratitude to my brother whose cooperation and encouragement strengthen due to complete this attempt. I am also thankful to my wife and my family members for their regular inspiration.

**SANAD GHIMIRE**

# TABLE OF CONTENTS

<b>TITTLE</b>	<b>PAGE NO.</b>
Recommendation	
Viva-Voce sheet	
Declaration	
Acknowledgements	
Table of Content	
List of Table	
List of Figures	
List of Abbreviations	
<b>CHAPTER- I INTRODUCTION</b>	<b>1-11</b>
1.1 Background of the Study	1
1.2 Brief Profile of Sample Companies	5
1.2.1 Nepal SBI Bank Limited	5
1.2.2 Everest Bank Ltd.	5
1.2.3 Standard Chartered Bank Nepal Ltd	7
1.3 Statement of the Problem	8
1.4 Objective of the Study	9
1.5 Significance of the Study	9
1.6. Limitations of the Study	10
1.7 Organization of the Study	11
<b>CHAPTER- II REVIEW OF LITERATURE</b>	<b>12-38</b>
2.1 Conceptual Framework	12
2.1.1 Overview of the Present Economy	13
2.1.1.2 Legal	13
2.1.2 Commercial Banking Activities	15
2.1.2.1 Factors Affecting the Banks Business	19
2.1.2.2 Functions of Commercial Banks	19

2.1.2.3 Lending process	22
2.2 Review of Books	23
2.3 Review of Article	31
2.4 Review of Previous Thesis	34
2.5 Research Gap	38

## **CHAPTER-III RESEARCH METHODOLOGY 39-49**

3.1 Research Design	39
3.2 Population and Sample	40
3.3 Nature and Source of Data Collection	40
3.4 Analysis of Data	40
3.5 Financial tools (Ratio Analysis)	41
3.5.1 Liquidity Ratio	41
3.5.1.1 Current Ratio	42
3.5.1.2 Cash and Bank Balance to Total Deposit Ratio	42
3.5.1.3 Investment on Government Securities to Current Assets	42
3.5.1.4 Loans and Advances to Current Assets	43
3.5.1.5 NRB Balance to Total Deposit Ratios	43
3.5.2 Activity Ratio	43
3.5.2.1 Total Investment To Total Deposit Ratio	43
3.5.2.2 Loans And Advances To Total Deposit Ratio	44
3.5.2.3 Loans And Advances To Total Working Fund Ratio	44
3.5.2.4 Investment On Government Securities To Total Working Fund Ratio	44
3.5.2.5 Investment On Shares And Debentures To Total Working Fund Ratio	45
3.5.2.6 Total Off-Balance Sheet (OBS) Operation To Loan And Advances Ratio:	45
3.5.2.7 Money At Call And Investment To Total Deposit Ratios:	45
3.5.3 Profitability Ratio	46
3.5.3.1 Return On Total Deposit Ratio:	46
3.5.3.2 Return On Loans And Advances Ratio	46
3.5.3.3 Total Interest Expenses To Total Interest Income Ratio	46
3.6 Statistical Tools	47

3.6.1 Arithmetic Mean	47
3.6.2 Co-efficient of Correlation between different variables	47
3.6.3 Regression Analysis	48
3.6.4 Test of Hypothesis (t-test)	49

## **CHAPTER–IV DATA PRESENTATION AND ANALYSIS**

**50-93**

4.1 Deposits, Loans and Investment Structure of Nepalese Commercial Banks:	50
4.1.2 Deposits of Nepal SBI Bank Limited	51
4.1.3 Deposits, Loans and Investments of Nepal SBI Bank Limited	51
4.2.1 Performance Highlights of Everest Bank Limited	54
4.2.2 Deposits of Everest Bank Limited	55
4.2.3 Deposits, Loans and Investments of Everest Bank Limited	56
4.3.1 Performances Highlights of Standard Chartered Bank Nepal Limited.	58
4.3.2 Deposits of Standard Chartered Bank Nepal Limited	59
4.3.3 Deposits, Loans and Investments of Standard Chartered Bank Nepal Limited	60
4.2 Financial and Statistical Analysis of Commercial Banks	61
4.2.1 Liquidity Ratio	62
4.2.1.1 Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)	62
4.2.1.2 Investment on Government Securities to Current Assets Ratio	64
4.2.1.3 Loans and Advances to Current Assets Ratio	65
4.2.2 Asset Management Ratio	67
4.2.2.1 Loan and Advances to Working Fund Ratio	67
4.2.2.2 Investment on Government Securities To Total Working Fund Ratio	68
4.2.2.3 Investment on Shares and Debentures to Total Working Fund Ratio	69
4.2.3 Profitability Ratio	71
4.2.3.1 Return on Loan and Advances Ratio	71
4.2.4 Risk Ratio	72
4.2.4.1 Credit Risk Ratio	72
4.3 Co-efficient of Correlation Analysis Analysis	74
4.3.1 Co-efficient of Correlation and Regression Between Deposits and	

Total Investment	74
4.3.2 Co-efficient of Correlation and Regression Analysis Between Deposit and Loan and Advances	75
4.4 Regression Analysis	76
4.5 Test of Hypothesis	79
4.5.1 Test of Hypothesis on Cash and Bank Balance to Total Deposits Ratio	79
4.5.1.1 Test of Significance Difference Between SBI and EBL	80
4.5.1.2 Test of Significance Difference Between SBI and SCBNL	81
4.5.2 Test of Hypothesis on Investment on Government Securities to Current Assets Ratio	82
4.5.2.1 Test of Significance Difference Between SBI and EBL	82
4.5.2.2 Test of Significance Difference Between SBI and SCBNL	83
4.5.3 Test of Hypothesis on Investment on Government Securities to Total Working Fund Ratio	84
4.5.3.1 Test of Significance Difference Between SBI and EBL	85
4.5.3.2 Test of Significance Difference Between SBI and SCBNL	86
4.6 Analysis of Primary Data	87
4.6.1 Factors That Should Be Considered While Making Investment Decision	87
4.6.2 Whether the Banks are maintaining their target deposits or not?	89
4.6.3 Whether the Banks are using their deposits properly or not?	89
4.6.4 The Gap Between Deposits and Credit is Increasing Rather than Decreasing	89
4.6.5 Major Portion of Deposit are Invested in Loans and Advances	90
4.6.6 Margin Rate of Securities	90
4.6.7 Major Problems that Commercial Banks are Facing While Investing in Loan and Advances	90
4.6.7.1 High Lending Rate	90
4.6.7.2 Real Estate Crash	91
4.6.7.3 Problem in Carpet Industry	91
4.6.7.4 New Economic Policy	91
4.6.7.5 NRB's Policies	91
4.6.7.6 Nepal Government's Measures Against This Problem	91

4.6.7.7 Bank's Management	92
4.7 Major Findings of the Study	92

**CHAPTER –V SUMMARY, CONCLUSIONS AND  
RECOMMENDATIONS**

**94-99**

5.1 Summary	94
5.2 Conclusions	95
5.3 Recommendations	97

**BIBLIOGRAPHY**

**ANNEX**

## LIST OF TABLE

<b>TABLE NO.</b>	<b>TITLE</b>	<b>PAGE NO.</b>
Table: 4.1	Deposits of Nepal SBI Bank Limited	51
Table: 4.2	Deposits, Loans and Investments of SBI	52
Table: 4.3	Sources and Uses of Funds of Everest Bank Limited	54
Table: 4.4	Deposits of Everest Bank Limited	55
Table: 4.5	Deposits, Loans and Investments of EBL	56
Table: 4.6	Sources and Uses of Funds of Standard Chartered Bank Nepal Limited	58
Table: 4.7	Deposits of Standard Chartered Bank Nepal Limited	59
Table: 4.8	Deposits, Loans and Investments of SCBNL	60
Table: 4.9	Cash and Bank Balance to Total Deposit	63
Table: 4.10	Investments on Government Securities to Current Asset Ratio %	65
Table: 4.11	Loans & Advances to Current Assets Ratio %	66
Table: 4.12	Loan and Advances to Working Fund Ratio	68
Table: 4.13	Investment on Government Securities to Total Working Fund Ratio	69
Table: 4.14	Investments on Shares and Debentures to Total Working Fund Ratio %	70
Table: 4.15	Return on Loan & Advances Ratio %	71
Table: 4.16	Credit Risk Ratio %	73
Table: 4.17	Co-efficient of Correlation between deposit and total investment	74
Table: 4.18	Correlation between deposit and Loan and advances	75
Table: 4.19	Calculation of Regression Equation between Net profits on Total deposits	77
Table: 4.20	Calculation of Regression equations between Net Profit on Total investment	77
Table: 4.21	Calculation of Regression equation between Total Investment on Total Deposit	78

Table: 4.22 Cash and Bank balance to Total deposits Ratios Between SBI, EBL and SCBNL	79
Table: 4.23 Investment on government securities to current assets Ratios Between SBI, EBL and SCBNL	82
Table: 4.24 Investment on government securities to total working fund ratios Between SBI, EBL and SCBNL	85

## LIST OF FIGURE

<b>FIGURE NO.</b>	<b>TITLE</b>	<b>PAGE NO.</b>
Fig. 4.1	Deposits, Loans and Investment of SBI	53
Fig: 4.2	Deposits, loans and investments of EBL	57
Fig. 4.3	Deposits, Loans & Investment of SCBNL	61

## ABBREVIATION

A.D.	:	Anno Domini
ADB	:	Asian Development Bank
AMC	:	Asset Management Company
ANOVA	:	Analysis of Variance
APEC	:	Asia Pacific Economic Cooperation
ATM	:	Automated Teller Machine
B.S.	:	Bikram Sambat
CEO	:	Chief Executive Officer
CIB	:	Credit Information Bureau
CPM	:	Credit Portfolio Management
DBL	:	Dubai Bank Limited
DEA	:	Data Envelopment Analysis
DRT	:	Debt Recovery Tribunal
DSCR	:	Debt Service Coverage Ratio
EBL	:	Everest Bank Limited
EBIL	:	Emirates Bank International Limited
FSRP	:	Financial Sector Reform Program
GON	:	Government of Nepal
HBL	:	Himalayan Bank Limited
HURDEC	:	Human Resource Development Centre
IDA	:	International Development Agency
INGO	:	International Non-government Organization
ICCMT	:	International Chamber of Commerce Management Team
IRR	:	Internal Rate of Return
LLP	:	Loan Loss Provision
Nabil	:	Nabil Bank Limited
NBL	:	Nepal Bank Limited
NBLB	:	National Bank Limited, Bangladesh
NEPSE	:	Nepal Stock Exchange

NGO	:	Non- government Organization
NIDC	:	Nepal Industrial Development Corporation
NIBL	:	Nepal Investment Bank Limited
NPL	:	Non-performing Loan
NPA	:	Non-performing Assets
NRB	:	Nepal Rastra Bank
PSL	:	Priority Sector Lending
RBB	:	Rastriya Banijya Bank
ROI	:	Return on Investment
SMS	:	Short Message Service
SWOT	:	Strength Weakness Opportunity and Threats
SCBNL	:	Standard Chartered Bank Nepal Limited
SPSS	:	Software Package for Social Studies
NSBL	:	Nepal SBI Bank Limited

# **CHAPTER- I**

## **INTRODUCTION**

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

It has been known since a long time that banking sector is the lifeline of a nation and its people. Commercial Banks are an integral part of the economy in all countries. In addition to the commercial Banking realm, there are several financial institutions affecting the financial operations in a country. The role of the commercial Banks in financial system is more significant, it plays increasingly dynamic, and vital role in the economy of the least developed countries like our country Nepal, 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. The inception of Nepal Bank Ltd (NBL) in 1937 AD (1994 BS) 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 with an authorized capital of 10 million as a semi government organization. Then the government felt the requirement of central bank and established “Nepal Rastra Bank” in 1956 A.D (2013 B.S) as a central bank under NRB act 2012 B.S. It played leading role in development of banking in Nepal and controlled the monetary culture in the country. Likewise, rising of banking function get popular and more complicated. Thus NRB suggested for the establishment of another commercial bank and in 1966 A.D (2022 B.S) “Rastriya Banijya Bank” was established as a fully government owned commercial bank. Now its branches are diversified all

over the country. During the 1970s, the economic Development came to be redefined in terms of reducing the rate of poverty and unemployment. In order to boost up the economy of any country both public and private firm must play a vital role. The concept of public enterprise was first emerged in the USA during regime of Roosevelt through his view deal. Although other countries also followed this concept that public enterprise could not run smoothly while arriving in 70s decades. Their productivity declined and ultimately, they resulted in heavy loss. The oil price hike of 1973 forced even developed countries to flash back into their economic structure. This wave of privatization slowly spread all over the world. During the end of 1980s and beginning of 1990s are characterized by the political change. Germany unified USSR split up and changed its socialist pattern of economy. Centralized economy of china slightly directed towards liberalization. Revolution in information technology, worldwide wave of privatization and liberalization, in 1990s led to global economy. The emergency of economic alliance and powerful blocks has changed the international trading system. About 200 countries of the world at present have divided into more than 170s alliance in the form of economic grouping and trade block such as EU, ASEAN, SAARC etc Gradually ascending economy in East Asia again encountered crisis in 1997, which affected Russia and Brazil too, leaving some impacts on global. Economy in most of the developing countries, growth remained weak and below pre-crisis trend. However, the negative impacts of crisis did not last long and now, by the beginning of new millennium, those economic affected nation have also regained their reforming pattern. At present, economy of America being have grown continuously since last decade is still in boom condition. China is emerging as economic super power. World trade organization has changed whole world to a single market unit without any bias and hindrances. Developed countries have opened their market not only scarce raw material from developing countries but also for finished goods with economic quality. Economic development in Nepal really started only after Rana Regime. In the later period of Rana Regime, some positive attempts were made. As a result, dog perished “got its existent in 1935 AD, Biratnagar jute mill in 1936 AD and Raghupati jute mill in 1946 AD. Before the break of Second World War, a twenty–year plan was announced and national planning committee was set up in 1949 AD. However, plan never came to the notice of

people and this idea disappeared with the dissolution of national planning committee. Nepal, in early 1950s, began the process of economic and social Development in spite of lack of modern institutions and infrastructure. Budgetary system was introduced in 1952AD (2008 BS). In the same year, a separate ministry for planning and Development was establishment for uplifting the nation. It is forty four years since the first five years plan was executed up to now nine successive plan have already been implanted and tenth planed is running. A cursory look at those plans show that the major focus has been laid on agro-sector, industrial sector, poverty alleviation and in the field of infrastructure Development pandey;1999:407

Economic stabilization programs adopted in 2042 BS with the assistance of IMF can be taken as the beginning of economic liberalization in Nepal. Structural adjustment program brought in 2044 with the structural adjustment facility from IMF can be considered as the continuations of same policy. After the restoration of multiparty system, the first elected government (2047BS) encourages the process of globalization. In order to accelerate the process of economic liberalization and globalization, the government enforced the foreign investment and technology by introducing foreign technology Transfer ACTS 2049” and Foreign Investment and One Window Policy - 2049”. Similarly the government enforced industrial enterprises ACT-2049 and commercial policy 2049’. The policies include one window provision for internal and foreign investor, non-nationalization of new industries implementation of full convertibility of Nepalese currency on current account etc. Non-requirement of license for the establishment of the industries other than having social cost was another aspect of the policy. In the similar way the government enforced the privatization ACT 2050 including its regulation and guidelines. The government developed various criteria for promoting private sector organization. These include management contract, partial privatization lease contract, assets selling and selling of shares. In case, the public enterprises are to be privatized, the government has the policy of selling 5% shares to the employees of enterprise, 25% to the public and management share to the competent party or individuals. Those policies have certainly contributed in the initial stage of globalization in the county. Their effectiveness can be measured in near future in terms

of economy generating wises and enhancing overall GNP and GDP of the country. Since decade, there has been a considerable growth in service sector Activities in Nepal. A rapid growth in the number of NGOs and INGO'S, multinational companies is like that the growth of mushroom in Nepal. The concept of financial institution in Nepal came into existence before six decades. 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, monitoring, and controlling them in the other. Realizing the need of adequate Banking services for the integrated and speedy Development of industrial sector, Rastriya Banijya Bank came into existence in 2022 BS with 100% government equity;Khadka 1998:43

After establishment of Agricultural Development Bank in 2024 BS, growth of Banking institution remained almost stagnant till 2040 BS. No new Banks came into operation during 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 along with the Nepalese promoters. Nepal Indosuez Bank limited and Grind lays Bank Limited were other joint venture Banks established after Nepal Arab Bank.

After restoration of multiparty democracy in the country, the government formulated new policies along with the amendment of existing policies to accelerate the process of economic liberalization and globalization. Consequently, six Joint Venture Banks came in existence. At present, there have been altogether nineteen Commercial Banks in operations including Joint Venture Banks. Those Banks attempted to introduce foreign management technical know how and foreign capital. Thus, it created an environment of healthy competition among the existing financial institutions.

## **1.2 Brief Profile of Sample Companies**

### **1.2.1 Nepal SBI Bank Limited**

It provides remittance facility to various part of the world via SWIFT transfer system and the Demand Drafts. It also provides instant remittance credit facility for fund transfer to India to SBI and other core banking branches of other banks too. It is the only the bank who provides such facility known as RTGS (Real Time Gross Settlement) process. It has widely accepted ATM(Visa Debit) Card by which the could be drawn in India from all ATMs of State Bank of India and other its associate banks. It has also prepaid card (Bharat Yatra Card) which is focused on the persons visiting India who can receive such card instantly without opening an account from any branch of Nepal SBI Bank Ltd.

### **1.2.2 Everest Bank Ltd.**

Everest Bank Limited (EBL) was established in 1994 and started its operations with a view and objective of extending professional ideas and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Sector Bank of India having more than 100 years of banking history with more than 4400 offices all over India and is known for its strong systems and procedures and a distinct work culture.

Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations ever since its inception and today it has established itself as a leading Private Sector Bank of the Nation, reckoned as one of the fastest growing Commercial Bank of the country.

The Bank's Paid-Up Capital has increased to 455 million against the Authorized Capital of 750 million whereas the Core Capital of the Bank is around 700 million. The local Nepalese promoters hold 50% stake in the Bank's equity, while 20 % of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the general public.

The bank provides a wide range of banking facilities through a wide network of branches covering all the five regions of the country and over more than 250 reputed correspondent banks across the globe. All the branches in the valley and as also those at important business centers like Biratnagar, Birgunj, Butwal and Bhairahawa are interconnected through Anywhere Branch Banking Systems (ABBS), a facility which enables its customers to do banking transactions from any of these branches irrespective of their having accounts in the other branch.

Being a pioneer in opening a representative office in New Delhi, India, EBL has successfully taken another historical step in the banking history of the country. Our representative office facilitates the remittance of Nepalese workers residing in India by opening their accounts from the identified branches of our joint venture partner, Punjab National Bank, India and also attracts Indian Investment to Nepal.

EBL is playing a pivotal role in arranging remittance of funds to and from India through instant transfer facility in addition to the Drafts Drawing Arrangement with 170 branches of PNB all over India. The Bank is also offering Cash Management System for managing the funds of corporate exporting to India by collecting their funds from about 183 locations in India. EBL, in order to help Nepalese citizens working abroad, has entered into arrangements with banks and finance companies in different countries which enables quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Baharain, Qatar, Saudi Arabia, Malaysia, Singapore and UK.

Not to be left behind in technology advancement, a continuous review and upgrading of the technology is undertaken for the convenience of its customers. The Bank has also introduced "EBL Debit Card" and installed ATM's at its main branches at Naya Baneshwor and New Road. It has also installed its ATM in Tribhuvan International Airport for providing convenience to the foreigners and the passengers flying outside and inside Nepal. Besides this, the Bank has tied up with Smart Choice Technology (SCT) for ATM switch shoring that enables the EBL Debit Card holder to have access at other SCT member banks ATMs installed at different locations throughout the nation.

The Bank also provides 365 days Banking Services at its branch at New Road along with extended banking facilities at New Road, New Baneshwor and Teku in Kathmandu.

Recognizing the value of offering a complete range of services not only to corporate but also to individuals, EBL has pioneered in the banking sectors in extending various customer friendly products like Home Loan, Education Loan, EBL Flexi Loan, Loan against Future Lease Rentals and Home Equity Loan, Car Loan, loan against shares and loan against insurance policies etc., thus helping people realize their dream 1999 principal of Management :204

### **1.2.3 Standard Chartered Bank Nepal Ltd.**

Standard Chartered Bank Nepal Limited (SCBNL) 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. 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 corporate 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, 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.

### **1.3 Statement of the Problem**

The numbers of joint venture Banks are being increased in response to the economic liberalization policies of the government. Besides joint venture, the Nepalese promoters are also registering other commercial Banks. These institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders and entrepreneurs. Most of the business organizations along with Banks are facing different problems due to the lack of political stability and unrest. Bank has been 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 Ltd., Everest Bank Ltd. and Standard Chartered Bank Nepal Ltd.

Since the liberalization policy of the government, various banks and financial institutions have been established with a view to reinforce the economic growth of the country. They have played an indispensable role by accepting deposits under various schemes and granting loans. Investment of the collected funds is the most important factor for both shareholders and the banks as they are the main sources of earning. Credit extended by these banks is directly related to the national interest. Therefore, the banks should have a sound deposit and investment policy.

Similarly, finance companies have been emerging rapidly and the bank has to compete with them as well. Finance companies pay relatively higher interests on deposits and commercial banks on the other hand grant loan at relatively lower interests than the finance companies. So, it has become difficult for both to survive in this competitive age. Joint venture banks are of utmost importance as they are contributing significantly to the overall economic development of the country. Yet, after so long since their establishment and successful operations for the almost two decades, they are not free from problems and hindrance in the avenue. When we are concerned with the three banks under our study viz. Nepal SBI Bank Ltd., Everest Bank Ltd. And Standard

Chartered Bank Nepal Ltd., they have been performing pretty well since their inception. They have been awarded prestigious titles on account of their experience in the field of international banking, hi-tech computerized services, professional attitude, qualified and experienced work force, quality and reliable services rendered by them as the key factor for their rapid progress.

Thus, the current study mainly focuses on the following issues:

- ) How far Nepal SBI Bank Ltd., Everest Bank Ltd. and Standard Chartered Bank Nepal Ltd. have been able to shift the monetary resources from the savers to users?
- ) What is the deposit and investment condition of three JVB?
- ) What are the main problems faced by the three firms in their deposits and investment?
- ) Is the bank maintaining sufficient liquidity position?

#### **1.4 Objective of the Study**

The main objective of this study is to evaluate the situation of deposit and investment pattern of the commercial banks with reference to Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. The specific objectives of the study are as follows:

- ) To study deposit position of the sample banks under study.
- ) To analyze the empirical relationship between deposits, loan and advances, investment, net profit and compare them between the three banks under study.
- ) To analyze impact of loan and investment in profit of Banks.

#### **1.5 Significance of the Study**

The study is important to know how the banks are utilizing their deposits. The position of the banks under study about loan and advances and investment can be determined, which makes clear about their performance and helps in making any kind of decisions 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 decision to the policy makers of the selected organization, governments and the other concerned fields. Likewise the research will provide required information to the persons and parties such as general readers, decision makers, brokers, traders, stock holders, financial agencies, businessmen and general public and is also useful for teacher and students of the particular subjects and the firms and others those having interest on financial management.

### **1.6. Limitations of the Study**

The study being the partial fulfillment of the masters degree in business studies has some limitations of its own kind. They are as follows:

- ) The study, lack of the sufficient time resources are the major limitations of the study since the study has been conducted for fulfilling the partial requirement of MBS course of T.U. Nepal.
- ) The study covers the analysis of only 5 years data.
- ) The whole study will be based on the secondary data collected from central office, Nepal SBI Bank Ltd., Everest Bank Ltd. and Standard Chartered Bank Nepal Ltd. Therefore, the limitation of data derived from financial statement exists. It focuses only on the deposit and investment position and does not cover other aspects of activities.
- ) This study is limited to the study of only three Joint Venture Banks. It does not cover study of all the existing Banks.
- ) Basically, ratio analysis is used to evaluate the deposit and investment of sample Banks. Therefore the limitations of ratio analysis exists i.e. the qualitative aspect of management is not evaluated.
- ) Due to the difficulties of availability of the data, only ordinary and simple techniques have been used for the analysis of the data.
- ) Having felt the limited time and limited recourses, this study do not examine the factor affecting the deposit and investment in different sectors and also the study might change its contents as per the necessity of thesis writing.

## **10. Organization of the Study**

This study has been divided into five chapters which are as follows:

**Chapter I:** Introduction

**Chapter II:** Review of the literature

**Chapter III:** Research methodology

**Chapter IV:** Data presentations and analysis

**Chapter V:** Summary, conclusion and recommendation

First chapter i.e. Introduction deals and includes the background of the study, brief profile of the sample companies, statement of the problem, objectives of the study, significance of the study, limitations of the study, and organizations of the study.

Second chapter deals with the review of available literature. It takes in review of the related books, journals, articles and previous unpublished Masters Degree thesis etc.

Third chapter explains the research methodology wued in the study. It includes research resign, population and sampling, source of data, method of data analysis and research variables etc.

Fourth chapter, the most important chapter of the study, is the presentation and analysis of data as well as the major findings of the study.

The fifth and the last chapter covers the summary of the study, the main conclusions that flows from the study and some recommendations as well as suggestions for further improvement.

## **CHAPTER- II**

### **REVIEW OF LITERATURE**

This Chapter is related to review of literature concern with the study. 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. This chapter consists of parts. The first part deals with the conceptual framework while the second part deals with the review of previous study.

#### **2.1 Conceptual Framework**

There is an important role of banks in the economic growth and development of a country. To achieve an ideal economic growth and development of the country, banks should have strong and well-managed organization of banking system. When banking is appropriately organized, it aids and facilitates the growth of trade and industry and hence of national economy. Banks are such type of institutions, which deal in money and substitute of money. They deal with credit and credit instruments. 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 for an investment of fund may be the question of life and death of the bank.

In modern economy, banks are considered not as dealer of money but as the leaders of development. Banks are not only the warehouse of the country's wealth but are also the reservoirs of the resources necessary for the economic growth of the country. 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 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 is certain while the rewards come later and uncertain.

### **2.1.1 Overview of the Present Economy**

In FY 2003/04, both broad money ( $M_2$ ) and narrow money ( $M_1$ ) increased at higher rates compared to their respective growth rate in the preceding year.  $M_2$  went up by 12.8% whereas  $M_1$  grew by 12.2%. Among the expansionary factors of money supply, net foreign assets (after adjusting foreign exchange valuation gain/loss) rose by 17.5% and domestic credit went up by 9.9% whereas net claims on government witnessed a decline of 0.8%. Of the contractionary factors of money supply, time deposits accelerated by 13.1% whereas net non-monetary liabilities (after adjusting foreign exchange revaluation gain/loss) increased by 9.8%. Total assets/liabilities of commercial banks expanded by 5.9%.

Other banking institutions exhibited improved performance in terms of loan repayments. Total assets and liabilities of finance companies increased. Market capitalization, annual turnover and paid up capital of listed companies in the stock market moved up markedly. The closing index of NEPSE surged by 17.18 basis points to 222.04 as at mid-July 2004 compared to that of a year ago.

#### **2.1.1.2 Legal**

The efficient function of the Banking system requires an efficient legal and judicial framework. Banking efficiency requires comprehensive, understandable and well-designed law from a functional perspective. Nepalese laws have mixed origins, some stemming from early western influence in the subcontinent and others adopted in the modern era, before or after the establishment of democracy. Many of the laws and institutions relating to financial institution in Nepal are modeled on the laws and institutions decreed by the British East India Company. The British brought their Victorian bureaucratic structures and invented new institutions, as they needed them, making them all answerable to a distant judicial system. The chief emphases were on adequately supporting international commercial relations, ensuring the value of the currency, and spurring collection of tax revenue.

There is no any difference between Nepalese commercial Banks and joint venture foreign commercial Banks with regard to the establishment and operation. Both type of Banks are regarded as Nepalese Banking Company in the eye of law and can find no special treatment of law between them. Different laws and different bodies are there to guide and regulate them. The general laws applies over all Banking companies including Banking and Financial Instruction related Act, 2060 (BS), company ACT,1997, Foreign Exchange(Regulation) ACT, 1962, Income Tax ACT 2002, Loan Recovery ACT 2002, Security Exchange ACT, 1983, Nepal Central Bank ACT 2002 etc. Commercial Bank is generally registered under the company ACT but operated under the Bank and Financial Institution related Act because it has no Provision for the registration of the Bank. The Bank can start banking service as per the Banking and Financial institution Act only after the approval of Nepal Rastra Bank. Foreign Banks can establish their branch and establish new local Banks under joint venture with the Nepalese investors from both public and private sectors. The Act does not mention separate provision for Nepali commercial Banks and joint venture Banks. Some legal provision which is must essential in regard of JVB is not stipulated in the Act such as terms and condition between Nepalese and foreign investment, ratio of shares, forms of investment. Act does not mention separate provision for Nepali commercial Banks and joint venture Banks. Some legal provision which is must essential in regard of JVB is not stipulated in the Act such as forms of cash or assets, in which currency foreigner can invest, how much amount gained from profit, bonus and amount by selling shares they can transfer in foreign currency etc. It does not provide clear policy and guidelines for the appropriate structure, ownership and share holding for the promoters and the general public. Other relevant provision depends upon the decision of central Bank. Decision of central Bank may be different for different Banks. In the realm of economic liberalization this types of provision does not appropriate to strength the Banking system.

### **2.1.2 Commercial Banking Activities**

In the past, Bank used to just accept deposits from the savers of money (surplus units of the society) and provide 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, silver, and metallic coins in the custody of some reputed person i.e. wealthy merchant or a money changer. The custodian had a strong box and other means of safe keeping. He offered this service as a favor 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 from a Latin word “Bancus” which means a bench. European money-lender and money-changers used to transact their business 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.

The history of the growth of Banking in Nepal is not so long in comparison with other developing or developed countries. Like other countries goldsmiths, merchants and moneylender were the ancient Bankers of Nepal Teejarath Adda established during the tenure of the Prime Minister Ranodip Singh (1993 BS) 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 1994 BS. Nepal Bank Limited had a Herculean responsibility of attracting people toward banking sector from pre-dominant moneylenders' 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 centres. Government however had onus of stretching Banking services to the nook and corner of the country and managing financial system in a proper way. Thus, Nepal Rastra Bank (NRB) was set up on 2013 BS as a Central Bank of Nepal under Nepal Rastra Bank Act 2012 B.S. It has been functioning as the government's Bank and also the bank of the other banks 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 itself as an efficient supervisor. NRB really requires strengthening their policymaking, 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 2022 BS as a fully government owned commercial Bank. As the name suggests, commercial Banks are to carry out commercial transaction only. However, commercial Banks have to carry out the functions of all types of financial institutions. Hence, Industrial Development Centre (IDC) was set up in 2013 BS for industrial development. In 2016 BS, IDC was converted to Nepal Industrial Development Corporation (NIDC). Similarly, Agricultural Development Bank (ADB) was established in 2024 BS to provide finance to the agricultural sectors so that agricultural productivity could be enhanced by introducing modern agricultural techniques. Moreover, Security Exchange Centre was established in 1976 AD to enhance capital market activities. Securities Exchange Centre was renamed as Nepal Stock Exchange (NEPSE) and its functioning was converted to an organized stock exchange. NEPSE opened its trading floor on 13<sup>th</sup> 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 which helped the common people to reduce their burden of paying higher rate of interest to

lenders. The inception of Nepal Arab Bank Limited in 2041 BS (renamed as NABIL Bank Limited since 1<sup>st</sup> January 2002) as a first joint venture Bank proved to be a milestone in the history of Banking.

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.

- ) Nabil Bank Limited
- ) Nepal Investment Bank Limited
- ) Standard Chartered Bank Nepal Limited
- ) Himalayan Bank Limited
- ) Nepal SBI Bank Limited
- ) Nepal Bangladesh Bank Limited
- ) Everest Bank Limited
- ) Nepal Credit & Commerce Bank Limited

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

- ) Lumbini Bank Limited
- ) Kumari Bank Limited
- ) Machapuchhre Bank Limited
- ) Laxmi Bank Limited
- ) Siddhartha Bank Limited
- ) Macchapuchhre Bank Limited

- ) Global Bank Limited
- ) Citizens Bank International Limited
- ) Prime Commercial Bank Limited
- ) Sunrise Bank Limited
- ) Bank of Asia Limited
- ) NMB Bank Ltd.
- ) DCBL 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 Rastra 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, many Rural Development Banks are also 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 securities in group basis as well as personal basis to operate in 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 that every man has his own characteristics and skills. 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 poverties.

#### **2.1.2.1 Factors 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 because of the prevailing environment may limit additional lending opportunities to a greater extent.

#### **2.1.2.2 Functions of Commercial Banks**

Banking industry offers a wide range of services encompassing the needs of public of different lifestyles. Hence, different types of Banks emerged in the Banking industry concentrating on a special sector. This is the age of specialization. Based on 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:

##### **Accept Deposit**

Among many functions of the commercial Bank, acceptance of deposit is one of them. The Banks accepts deposits under three types of account. They are Fixed Deposit,

Saving Deposit and Current Deposit Accounts. People can deposit their earned money in one of the above-mentioned three accounts. However, the interest is paid only on saving and fixed deposit accounts. No interest is paid to the Current Deposit Accounts. 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.

### **Provide Loan**

Another function of the commercial Bank is to provide loan. A commercial Bank provides loan to the deserving persons, companies and institutions. 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 loan by accepting collateral securities of debtors. A Bank can flow the loan against a third person guarantee or with the pledge of the third persons property. A Bank provides loan on the basic of agreement or deed of loans.

### **Agency Functions**

The commercial Bank used to provide agency function in 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 Demand Drafts, Fax Transfers or Telegraphic Transfers.
- ) 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 Banks also pays rent of the house, permission of the insurance and income tax etc on behalf of its customers.

### **General Utility Functions**

A commercial Banks discharge the function of general utility also. These functions are as follows:

- ) If the central Bank has given the permission to carryout the transaction of foreign currencies, the commercial Bank exchanges the foreign currency earned by his customers.
- ) A Banks issue travellers cheques in the customers name and communicate the credit information or notices for his customers.
- ) A Banks provides lockers to its customers for keeping valuable metals, ornaments, and documents safely. The customer keeps one of the keys of lockers with him and the Bank is keeping the other. If the customers valuable goods are kept under the Banks custody such safe boxes are called safe deposits valve.
- ) A Banks gives economic and professional advice to its customers.
- ) A Banks collects important commercial information and data for his customers.
- ) Overseas 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.

### **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.

### **2.1.2.3 Lending process**

Commercial bank follows several steps to disburse loan to the borrowers. The lending policies might be different from one bank to another. In general, these steps can be pointed out as follows.

Application: the needy are required to submit an application to the bank along with required documents. The documents required for credit proposal appraisal and processing by banks are as follows:

- Loan application
- Citizenship certificate of applicant
- Firm/ company registration certificate (if self employed)
- Income tax registration certificate (if self employed)
- Authenticated partnership deed in case of partnership firm, and memorandum and article of association in case of company
- Attested copy of board resolution in case of company resolved to avail loan and banking facilities from bank against the pledge, hypothecation, and mortgage of fixed property owned by company or property of third party named.
- Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company.
- Feasibility report/scheme ( for new project)

#### **Lending appraisal and processing**

Basically, appraisal of loan proposal is processing for the analysis of the variability of the scheme proposed. It also helps to assess the actual financial assistance needed to operate the scheme.

Commercial bank carries out loan appraisal on the basis of past performance, future forecast and information available from the documents submitted by aspirant borrowers.

The bank tries to ascertain the following during loan processing:

- ) The cost of estimate is examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specification of machinery should be proper.
- ) Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.
- ) The return rates should be adequate like return on investment (ROI), internal rate of return (IRR) and debt service coverage ratio (DSCR).
- ) The capacity, competency, integrity and commitment of promoters /partners /proprietors /directors /personnel should be intact.
- ) SWOT (strength, weakness, opportunity and threat) analysis of the proposed project must give reasonable assurance.

## **2.2 Review of Books**

Banks are such type of institutions, which deal in money and substitute of money. They deal with credit and credit instruments. 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 for an investment of fund may be the question of life and death of 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 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 is certain while the rewards come later and uncertain.

In the words of Gitman and Joehnk(1990) "Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns "Frank and Reilly defines "An Investment is 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. 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 defines, "There are basically three concepts 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, define the word investment as "Investment has many factors. It may involve putting money into bond, treasury bills, or notes or common stocks or painting of real estates, or mortgages or oil ventures, or selling short in bear markets. It may involve options, straddles, tights, warrants, convertibles, margin, gold-silver, mutual funds, money market funds, index funds and results in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the able or lucky, the reward may be substantial. For the uninformed the results may be disastrous."

Frank K. Reilly, defines 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 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. Therefore, a bank has to be very cautious while investing their funds in various sections. The success of the bank depends heavily upon the proper management of its invisible funds.

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."

James C Van Horne expresses his view as, "Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets;cheney anedward 2000 Banking and insurance :65

According to L.V. Chandler, "A banker seeks optimum combination of earning, liquidity and safety while formulating investment policy.

Dr. (Mrs.) Preeti Singh (1992) has defined investment in this way, "Investment is the employment of funds with the aim of achieving additional income of growth in value."

In the words of S.P. Singh and S. Singh, "The investment (Credit) policies of banks are conditioned, to great extend, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course, his banker's credit policy also in mind; world Bank encycopedia;1966 Fincacial instutions share markets:62

Mr. Charles P Jhones(1991) says, "Investing covers a wide range of activities and refers to investing money either in securities or mutual funds. More knowledge investors would include other financial assets such as warrants, puts and calls, convertibles securities etc. Investing encompasses very conservative positions and aggressive speculation."

He defines the word investment as, "An investment can be defined as the commitment of funds to one or more assets that will be held over some future time period." Investment is the study of investment process and is concerned with the management of an investor's wealth.

In William F. Sharpe's saying, "Investment is sacrifice of current dollars for future dollars and time and risk are involved in investment." According to him, sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain. In some cases the element of time pre dominates. In other cases, risk is the dominant attribute etc.

According to I.M. Pandey, "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 add to all the shareholder's wealth if it yields benefit in excess of the minimum benefit as per the opportunity cost of capital;Radhawamy and vasudevan 1978 Finacial position of research:23

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 sectors, 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.

According to Mr. Shakespeare Baidhya on sound investment policy, "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 uncollectable due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the banks 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' as, Investment is the use of money to earn income or profit. The term also refers to the expenditures of funds for capital goods such as factories, firm, equipment, livestock, and machinery. Capital goods are used to produce other goods or services; Weston and copeland: 1991 Fincaila position of investment: 683

Many 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 equipments to increase their production. In addition to borrowing from banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bond to obtain funds to invest in such projects as the construction of dams, roads, schools etc. 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 means those goods, which are used in the production of other goods. He says it is goods; societal or aggregate point view. The definition implies that in society there are number of goods which are used to produce other goods and that these means have production that 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 usually refers to money committed of same sort. He gives an example as, a commitment of buying a new car among a number of new cars is certainly an 'investment'. From an individual's point of view 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 spend-investment concept of the consumer and the real investment of the businessman. He differentiates an 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. In addition, he shows the difference between speculations and gambling as; 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 mere 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 form of risk taking business activity.

Investment usually involves putting money into an asset, which is not necessarily marketable in order to enjoy a series of returns the investment that is expected to yield. On the other hand, speculation is usually a short-run phenomenon. Speculators tend to buy assets with the expectation of a profit that can be earned from a subsequent price change 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.

"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". Inter bank market is the main stay 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 by their growing fund requirements. Except during times of tight liquidity situation, funds are always available at a price. Inter bank transactions are conducted not only within the domestic money market, but they can be done in all financial cities like Tokyo, London, New York, Hong Kong, Dubai, Paris, Frankfurt etc. Due to time differences in financial centers, the markets are open for about 24 hours. The markets start their business right from Tokyo, followed by Singapore, Hong Kong and Nepal then to Europe, Canada and America and again start from Tokyo the next day.

He has presented two types of inter bank transactions in the article. They are

- ) Deposit (Placements)/ Loans (Borrowings)
- ) Foreign exchange

He has presented about inter bank dealing operation as "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 set rules and regulation for the member's banks. A few aspects of inter bank-dealing operation are presented here under:

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

He has explained about function of inter-bank market and looking ahead the inter bank market works as intermediaries 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 inter bank 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 down to other needy banks. Funds needed to support leading can be bid for in the inter-bank market. Inter-bank market gives confidence about that fund to meet balance sheet contingency. In addition, the inter-bank enables 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 deposits from other banks. Forward sales contract of foreign exchange 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, inter-bank placement transactions. 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 take benefit from prevailing higher rate of interest in long term placements, NRB has permitted commercial banks entering in to interest in loan rate swap contracts. It is hoped that after the hand over 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 inter bank, the inter bank business in the country could not work properly.

### **2.3 Review of articles**

**Pradhan (2003)**, "*Financial Management Practices in Nepal*" has done a research for which he carried out a survey of 78 enterprises. Through his research entitled, he found some of the major features of Nepalese financial management. According to him, "The most important finance one appeared to be working capital management while, the least important one appeared to be maintaining good relation with stockholders. The finding reveals that banks and retained earnings are two most widely used financing sources. Most enterprises do not borrow from only one bank and they do switch between banks to banks whichever offers best interest rates. Most enterprises find that banks are flexible in interest rates. Among the banks 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 private sector enterprises felt that bank would treat all firms equally while public sector doesn't feel so. Similarly, he concluded that major enterprises in trade sector finds that banks interest rate is just right while the majority of non-trade sector finds that some is one higher side.

Choose such a portfolio of securities, which insures maximum return with minium 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:

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 contrary, they have heavy burden of personnel and administrative overheads. Similarly, due to huge amount of 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 respectively. 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 concluded that by its very nature of the public sector, the domestic banks couldn't compete with the private sector banks. Therefore, only remedy to the problem of these banks, as the government decides, is to hand over the ownership as well as the management of these banks to the private hands.

**Moris (2007)**, in his article entitled "*Latin America's Banking System in the 1980s*" 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 many 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, lax loan recovery, high-risk diversification of lending

and investments, high-risk concentration, connected and insider lending, loan mismatching. This has led many banks of developing countries to the failure in 1980s.

**Pokharel (2008)**, "*Financial Sector Reform And Challenges*" in the article entitled Agricultural credit publication stresses that highest liquidity makes the financial institutions un-bankable by creating unnecessary burden of bearing the cost of capital. Dr. Pokharel expresses that most of the financial institutions are lying on uneconomic situation due to ineffectiveness 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.

Pokharel further suggests that commercial banks need to make strong strategy urgently with shifting the money from fixed 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 from 2006 to 010.

The importance and benefits of providing service quality are well documented in the academic literature, and business participations strive to design and implements programs to ensure that the customer is satisfied with his/her encounters with a service firm and, in turn, with various dimensions of service quality. However, quality discrepancies and shortfalls are likely to occur, especially when human input is largely responsible for the "Production" and delivery of the offering. The problem that arises for organizations are what happens when a service shortfall occurs; how can they recover from service failure?

**Sharma (2000)** in his article, "*Banking the Future of Completion*" has said due to the bank of the investment revenues bank are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effects would show colors only after 4 or 5 years. Again he said that private commercial banks have mushroomed only in urban areas where banking transactions in large volume is possible the rural and

sub urban areas mostly remain unattended too. This is likely to prevail till competition takes its fall rain in the urban area.”

## **2.4 Review of Previous Thesis**

Master’s degree researches are the important sources of literature review. Master’s degree students have accomplished studies on various aspects of commercial banks. Before this study, several thesis works had been carried out by various students regarding the various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization, capital structure etc. Some of the relevant findings of the research works for the study are presented below

**Upreti (2006)**, in a study entitled, “*A study of the joint of investment and loan pattern of Nepalese commercail Bank*” has presented following major findings:

- ) Interest income of NIBL is the highest.
- ) Nabil’s commission and discount earning and foreign exchange income is higher than both NGBL and NIBL.
- ) Nabil’s other operating income is appeared higher than other banks.
- ) NGBL has the highest EPS and cash dividend per share in average.

**Shakya (2007)**, conducted a study on "*Financial analysis of joint venture banks in Nepal with reference of NABIL & NGBL.*" The major findings of the study are as follows:

- ) The cash and bank balance to total deposit ratio of NABIL Bank Limited is in fluctuating trend whereas the same ratio of NGBL is in decreasing trend.
- ) NGBL's liquidity position is comparatively better than that of NABIL Bank Limited.

**Thapa (2008)**, conducted a study on "*A Comparative study on investment policy of Nepal Bangladesh Bank Limited and other joint venture banks*". The major objectives of the study were as follows:

- ) To evaluate the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparison to NABIL and NGBL.
- ) To analyze the relationship between loans and advances total investment with other financial variables of sample banks.
- ) To examine the fund mobilization and investment policy of NB Bank through off-balance sheet and on-balance sheet activities in comparison to the other two banks.
- ) To study the various risk in investment and to analyze the deposit utilization trend and its projection for improving the investment policy of NB bank on the basis of the findings of the analysis.

The major research findings of the study are as follows:

- ) The liquidity position of NB Bank is comparatively better than that of NABIL and NGBL.
- ) NB Bank has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratios.
- ) It has good deposit collections, has made enough loans and advances 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-balance sheet activities as compared to NABIL and NGBL. It does not seem to follow any definite policy regarding the management of its assets.
- ) 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 a high growth rate in comparison to other banks through it is not successful to make enough investment. One can say that the bank is successful in increasing its sources of funds and its mobilization.
- ) There is significant relationship between deposit and loans and advances 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.

- ) The position of NB bank in regards to utilization of the fund to earn profit is not better in comparison to NABIL and NGBL.
- ) NB bank has not provided credit card facility, any branch banking system (ABBS) facilities and web site etc. but these facilities are being provided by the NABIL and NGBL.
- ) NB bank is not in better position regarding the proportion of fee-based activities to loans and advances as compared to other two banks during the study period. NB bank in terms of recovery of loan is worse in comparison to NABIL and NGBL.

**Pant (2009)**, conducted a study on, "*A study of commercial banks deposits and its utilization*". The research findings of the study concluded as :

- ) From the study of commercial banks deposits and its utilization, it is observed that the failure in resources utilization is due to their lending confined for short term only.
- ) The deposit raised by the bankd under study was not properly utilized. This reflects the lack of definite policy of the banks.
- ) Commercial banks should give emphasis on long term lending too for better utilization of the deposits.
- ) Time to time supervision and control should be taken to make best use of the deposits received.

**Joshi (2010)**, conducted a study on, "*Investment policy of Commercial Banks in Nepal: A Comparative Study of Everest Bank Limited , Nabil bank Limited and Bank of Kathmandu Limited*" has presented research findings of the study as follows:

- ) The liquidity position of EBL is comparativey better than Nabil and BOK. EBL has the highest cash and bank balance to total deposits, cash and bank balance to current assets ratio. Nabil has the lowest liquidity position than that of the two other banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan and advances.

- ) From the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to Nabil and BOK. The total investment of EBL is in between as compared to other two banks.
- ) In the study, loan and advances to total deposit is higher in BOK but total investment to total deposit is higher in Nabil. Investment on shares and debentures to total working fund ratio is higher in BOK. But the coefficient of variation is higher in EBL.
- ) In analysis of profitability, total interest earned to total outside assets of EBL is lowest between the three banks. But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared banks i.e. Nabil and BOK. From the view point of risk ratio, EBL has higher capital risk but average of credit risk in comparison to Nabil and BOK.

**Pokharel (2010)**, conducted a study on "*The Investment Pattern and Policy of Rastriya Banijya Bank*". The major research findings of the study are concluded as follows:

- ) From the study of the investment pattern of Rastriya Banijya Bank, it is observed that the investment is mainly towards the security of gold and silver.
- ) The banking costs have been retained relatively very high.
- ) There have 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 Nepal Rastra Bank from time to time.
- ) The deposits, which are raised by the bank, are not properly utilized.
- ) Rastriya Banijya Bank has not invested in priority sector as per the directives of Nepal Rastra Bank.

## 2.5 Research Gap

Investment in different sectors and collecting deposits from various sectors are made on the basis of the directives and circulars of Nepal Rastra Bank as well as the investment guidelines and policy of the concerned commercial banks. Commercial banks have to follow these directives and circulars as their own guidelines and policies. Furthermore, their own deposit collection and investment guidelines and policies should be inline with NRB directives and Circulars. So the up to date study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the recent financial data, NRB circulars and guidelines than that of previously conducted.

The Optimum diversification of investment reduced the default risk. It guides to optimum collection of deposits from various sectors. It is the major concern of the stakeholders to know the portfolio of the bank. This study puts its effort to find out the proportion of investment and deposit collection of bank to different sectors of economy and analyse the diversification of investment as well as collection of deposits.

No case has yet been shown about deposits and investment pattern in recent data. Here I have tried my best to define the data in a simple way using simple regression, correlation and hypothesis test ( $H_0$ ) test. It is used to describe the nature of a relationship and to make a prediction. Simple regression has one prediction variable one criterion variable, alongside T- test has been used only ( $H_0$ ) format.

So this study will help and be fruitful to those interested persons, parties, scholars, teachers, businesspersons, new comers, civil society, commercial banks and government academically as well as policy perspectives.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

This chapter is related to the research methodology applied in the entire aspect of the study. Research methodology is a research tool which is used to test the hypothesis and to come to a factual conclusion. It refers to the logical sequence of various steps to be adopted by a researcher in studying problems with certain objectives. In other words, research methodology describes the method and process applied in the entire subject of the study. This chapter includes research design, population and sampling, nature and sources of data, analysis of data and tools for analysis.

#### **3.1 Research Design**

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variance. Research design specifies an outline of plan to be carried out concerning with the proposed research work. The design is in simple form but it covers the main comprehension of the study. The research design shows the investment situation of the banks in derived form using seven years data from internally generated accounting records maintained by Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. To accomplish this study, the applied design is descriptive and core perspective because the secondary data have been mainly applied for analysis. This research has been done to analyze the patterns of deposit and investment of commercial banks based on historical data and information. So most of the data and information of the study are 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 the answers 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 been applied to examine facts and descriptive techniques have been adopted to evaluate deposits and investment of SCBNL, EBL and SBI.

### **3.2 Population and Sample**

There are altogether 28 commercial banks operating all over the kingdom and all most all's stock are traded actively in the stock market. Therefore the total number of commercial banks is taken as population and the three banks under study i.e. Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited are taken as sample.

### **3.3 Nature And Source of Data Collection**

The present study is mainly based on secondary data related with the three banks under study viz. Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. The data related to the investment i.e. loans and advances, deposits and profit/loss are directly obtained from banks annual reports and financial statements of the banks. Likewise, journals, newspapers, periodicals, magazines, reports and unpublished thesis have been taken as other sources of data during the study.

Based on the requirements and objectives, all the secondary data were compiled, processed and tabulated in time series. In order to judge the reliability of data provided by the banks and other sources, they were complemented with the annual report of the auditor. Formal and informal talks to the concerned head of departments of the banks were also helpful to obtain the additional information of the related problems.

### **3.4 Analysis of Data**

Several financial and statistical tools are used to analyze the collected data and to achieve the results of the study. The analysis of data will be done according to the pattern of data available because of limited time and resources. Simple analytical and statistical tools such as percentage, Karl Pearson's coefficient of correlation, method of

least square and test of hypothesis are used in this study. Similarly, some accounting tools such as ratio analysis and trend analysis have also been used for financial analysis. The selective techniques of data analysis have been used according to pattern of available data. Various statistical and financial data have also been taken in this heading.

### **3.5 Financial Tools (Ratio Analysis)**

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

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

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

#### **3.5.1 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 liquidity. The failure of a company to meet its obligation due to lack of sufficient liquidity, will result in a poor credit worthiness, loss of credit or confidence, or even in legal angles resulting in a closure of the company. Very high degree of liquidity is also harmful. 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 liabilities of the Bank, the used ratios are given below:

### 3.5.1.1 Current Ratio

Current ratio is a 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 2:1 is considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In spite of its shortcoming, it is a crude and quick measure of the firm's liquidity. Current ratio is computed by dividing current assets by current liabilities.

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

### 3.5.1.2 Cash And Bank Balance to Total Deposit Ratio

Total deposit consists of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits. 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 in hand, foreign currency cash in hand, 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.

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

### 3.5.1.3 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:

Investment on Government Securities to Current Assets =

$$\frac{\text{Investment on Government Securities}}{\text{Total working Funds}}$$

#### **3.5.1.4 Loans and Advances to Current Assets**

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

$$\text{Loans and Advances to Current Assets} = \frac{\text{Loans and Advances}}{\text{Current Assets}}$$

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

#### **3.5.1.5 NRB Balance to Total Deposit Ratios**

This ratio shows the percentage of NRB deposit to total deposit. This ratio is calculated by dividing balance with NRB by total deposits. The NRB balance consists of cash in hand, foreign currency cash items, balance with NRB and domestic Banks, balance held abroad and money at call and short notice.

$$\text{NRB Balance to Total Deposit Ratios} = \frac{\text{Balance with NRB}}{\text{Total Deposit}}$$

### **3.5.2 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. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into revenue. Activity ratios, thus, involve 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 which are as follows:

#### **3.5.2.1 Total Investment To Total Deposit Ratio**

Total investment consists of investment on 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:

$$\text{Total investment to total deposit ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

### **3.5.2.2 Loans And Advances To Total Deposit Ratio**

This ratio is computed by dividing total loans and advances by total deposit. Loans and advances consist of loans, advances, cash credit, overdrafts, and foreign bills purchased and discounted. The ratio presents the proportion of total deposit invested in loans and advances. High rate means the greater use of deposits for investing in loans and advances 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.

$$\text{Loans and advances to total deposit ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

### **3.5.2.3 Loans And Advances To Total Working Fund Ratio**

This ratio is calculated by dividing loans and advances by total working fund. This can be calculated as:

$$\text{Loans and advances to total Working fund ratio} = \frac{\text{Loans and Advances}}{\text{Total Working Funds}}$$

The denominator includes all assets of On-balance sheet items. In other words, 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.

### **3.5.2.4 Investment On Government Securities To Total Working Fund Ratio**

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

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

### **3.5.2.5 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:

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

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

### **3.5.2.6 Total Off-Balance Sheet (OBS) Operation To Loan And Advances Ratio:**

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

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

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

### **3.5.2.7 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.

### **3.5.3 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 in 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 terms 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:

#### **3.5.3.1 Return On Total Deposit Ratio:**

This ratio is computed by dividing net profit after tax by 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 is the index of strong profitability position. This can be stated as:

$$= \frac{\text{Net profit}}{\text{Total deposit}}$$

#### **3.5.3.2 Return On Loans And Advances Ratio**

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

$$= \frac{\text{Net profit}}{\text{Loan and advances}}$$

#### **3.5.3.3 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, advances, cash credit, overdrafts, and government securities, inter Bank and other investments.

### 3.6 Statistical Tools

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 on the basis of explanation, description and comparison of phenomenon.

Various statistical tools can be used for the 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:

#### 3.6.1 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, then their arithmetic mean usually denoted by mean, is given by

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

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

Where  $n$  = Number of the observation.

#### 3.6.2 Co-efficient of Correlation between different variables

This analysis identifies and interprets the relationship between two or more variables. In 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 (loans & advances and investment) and maximization of profit. The correlation coefficient (r) between two variables X and Y can be obtained by using following formula:

$$\text{Correlation (r)} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Following general points 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 variables 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 closer 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.

### 3.6.3 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. The cause and effects of relationship clearly indicated through regression analysis than by correlation. In other words, regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. There are two types of variables i.e. dependent variables and independent variables. The variables whose value is influenced or to be predicated is called dependent variable whereas the variable which influences the value or used for prediction is called independent variable. Thus

regression analysis studies the statistical relationship between the variables. The main objective of Regression is to predict or estimate the value of variables corresponding to a given value of independent variables. While regression analysis has been developed to study and measure the statistical relationship between two variables only then the process is known as the simple regression analysis. Regression lines expressed in terms of mathematical relations are known as regression equations. It is the line which gives the best estimates for the value of y for any specified values of X.

Regression equation of Y on X is given by

$$Y = a + bx$$

Where,

Y = dependent variable

X = Independent variable

a = Intercept of the line

b = Slope of the line

The value of the constants 'a' and 'b' can be determined by solving two normal equations (applying principle of method of least squares).

$$y = na + b \sum x \dots\dots\dots ii$$

$$xy = a \sum x + b \sum x^2 \dots\dots\dots iii$$

### 3.6.4 Test of Hypothesis (t-test)

Test of hypothesis is a useful tool to know the significance of the parameters. The objectives of this test are to test the significance regarding the parameters of the population on the basis of sample drawn from the population. In the study, t-test have been done:

If we draw a large number of small samples i.e. ( $n < 30$ ) and compute the mean for each sample and then plot the frequency distribution of these mean, the resulting sampling distribution would be t-test. On these study sample are taken only for seven years i.e. ( $7 < 30$ ).

## **CHAPTER–IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter is related to the presentation and analysis of data collected from various secondary sources. This chapter has been divided into two main sections. The first section of the chapter deals with the analysis of secondary data and second section deals with major findings of the study. This is an analytical chapter, where the researcher has analyzed and evaluated those major financial items and statistical items, which are mainly related comparison of the investment, deposits, total assets and loans and advances of Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. From the view point of the deposit and investment policies only those ratios are calculated and analyzed which are relevant and important for the study. The ratios are designed and calculated to highlight the relationship between financial items and figures.

#### **4.1 Deposits, Loans and Investment Structure of Nepalese Commercial Banks:**

There are 31 registered commercial banks in Nepal. The collection of data from all these banks would have been much more difficult due to the time constraints and unavailability of data. Therefore, the evaluation analysis is done for Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited in detail.

#### 4.1.2 Deposits of Nepal SBI Bank Limited

**Table: 4.1**

#### **Deposits of Nepal SBI Bank Limited**

Rs. In Million

S.No.	Purpose	2006	2007	2008	2009	2010
1	Current	1712.6	1774.1	1375.4	1930.4	1738.1
2	Savings	2024.2	2684.7	2832.7	3274.7	4171.2
3	Fixed	3371.4	4086.4	6116.2	5517.3	6854.9
4	Call Deposits	-	-	449.0	624.7	828.8
5	Others	123.9	100.6	79.4	98.1	122.4
	Total	7232.1	8645.8	10852.7	11445.2	13725.4
	% Growth		19.55	25.53	5.46	19.92

*Source: Annual Report of SBI*

From the data given in table no. 4.1 above, it is found that the total deposits grew up hugely by 25.53% in fiscal year (FY) 2008 but in the fiscal year 2009, the total deposits increased by only 5.46% to reach Rs. 11445.2 Million from Rs. 10852.7Million. Later in the following years the deposit level continuously increased reaching to Rs. 13725.4 Million in the last fiscal year of 2010. The above table shows the deposit of SBI bank is increasing but in fluctuating trend.

#### 4.1.3 Deposits, Loans and Investments of Nepal SBI Bank Limited

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

**Table: 4.2**  
**Deposits, Loans and Investments of SBI**

Rs. In Million

S.No.		2006	2007	2008	2009	2010
1	Deposits	7232.1	8645.8	10852.7	11445.2	13725.4
3	Loans & Advances	5490.9	6619.1	8059.6	9846.7	12574.9
2	Investments	1889.4	2607.7	3699.9	2377.5	5524.4
	Loan to Deposits %	75.92	76.56	74.26	86.03	91.62
	Investment to Deposit %	26.13	30.16	34.09	20.77	22.93
	Growth of Investment%		38.02	41.88	-35.74	32.36

*Source: Annual Report of SBI*

From the above table it is found out that the investment growth rate of SBI in FY 2009 was highly negative i.e. -35.74% but there was a remarkably rise in growth rate in investment of 41.88% in the FY 2009. The investment growth rate is in increasing trend in the FY 2007 and then it is decreased in the FY 2008. This shows the high fluctuation in the investments of the bank during the study period.

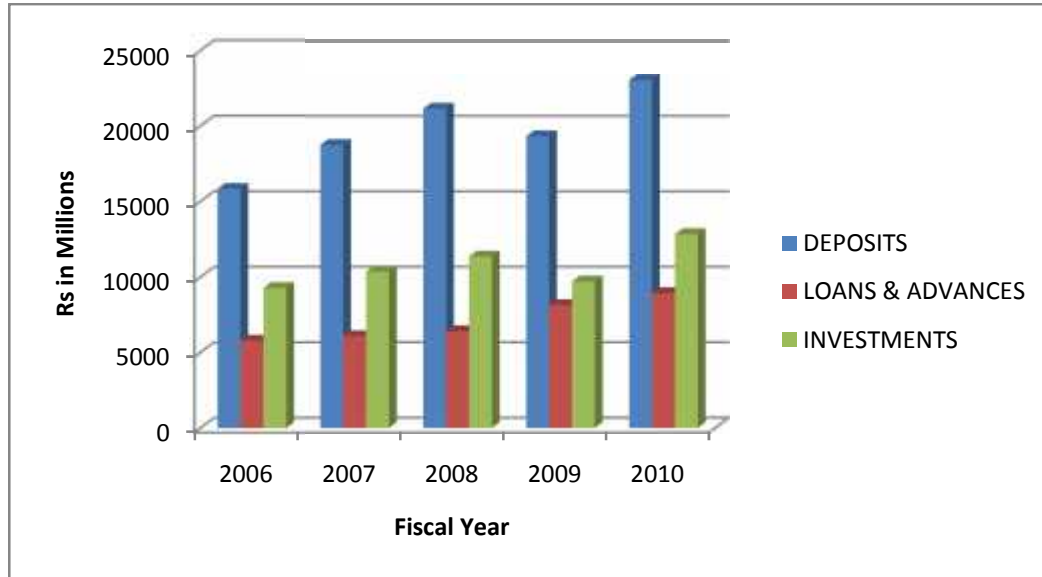
Total loan to deposit in 2006 noted as 75.92 %, which declined to 74.26% in the year 2007. The improvement in the banks policies and reductions in CRR policies by the government enabled the bank to increase its loans and advances. In the year 2008 the growth rate was 86.03% and it was 91.62% in the FY2010. That shows the SBI mobilized its fund by high percentage. The higher will be the lending higher be the profitability. That mean the profitability of the bank also be increased.

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 investment was in increasing with increasing in loan and advances. 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**

**Deposits, Loans and Investment of SBI**



The above figure shows the growth in deposits, loans and advances and investments of SBI in different years. It shows the ups and downs of total loan to deposit and total investment to deposits in seven years period.

In the loans to deposit percentages, there is a high fluctuation, in coming from FY 2006 to 2010 i.e. came down straightly, but again it moved up in 2006. In FY 2008 it fell down slightly and recovered in the following fiscal years while moving till FY 2010. Investment to total deposits percentages is almost constant after FY 2010. The investment growth rate shows higher ups and down during the study period.

## 4.2.1 Performance Highlights of Everest Bank Limited

Table no: 4.3

### Sources and Uses of Funds of Everest Bank Limited

Rs. In Million

Sources	2006	2007	2008	2009	2010
Capital & reserve	665.8	980.3	832.5	936.6	1601.5
Deposits	8064.0	10097.8	13802.5	19097.7	23976.3
Borrowings	433.3	-	300.0	300.0	300.0
Other Liabilities	804.1	799.7	1187.6	1424.8	1540.9
<b>Uses</b>					
Liquid funds	869.7	1624.2	1619.6	3329.7	3198.4
Investments	2466.4	2100.3	3548.6	4704.6	49.6.5
Loans & advances	6166.6	7914.4	10124.2	14059.2	18814.3
Interest accrued	99.8	122.7	145.3	159.8	110.0
Others Assets	482.9	449.9	576.9	750.2	1155.0
Profit after tax	85.3	94.2	143.6	168.2	237.3

Source: Annual Report of EBL

During the fiscal year 2006, the deposit and total investment of Everest Bank Limited (EBL) grew by 49.62% and 246.67% respectively. The loans and advances also grew up by 32.4% during the same fiscal year i.e. 2006. Deposit, investment and the loans and advances Investment continued increasing in the following year too. This increasing trend still remained in deposits and loans and advances but the investment decreased by 2.30% in the fiscal year 2007. The deposits of the bank continued to rise in the following fiscal years. It is increased by 20.45%, 25.22% and 36.69% respectively in the fiscal years 2008, 2009 and 2010 respectively. Like the deposits the loans and advances also grew by 20.72%, 24.98% and 28.65% respectively in the following three fiscal years respectively. But the investments increased in the year 2007 by 53.31% but was decreased by 16.04% in the next year. It is again drastically increased by 97.31% in the fiscal year 2010. Likewise, the net profit (after tax) has regularly increased in the

later fiscal years going from 2006 to 2010 by 68.77%, 22.38%, 10.43%, 52.44%, 17.13% and 41.08% respectively reaching Rs.237.3 Million in the fiscal year 2007 from Rs.41.3 Million in the year 2010.

#### 4.2.2 Deposits of Everest Bank Limited

**Table no: 4.4**

#### **Deposits of Everest Bank Limited**

Rs. In Million

Sources	2006	2007	2008	2009	2010
Current	719.8	1025.2	1155.2	2620.0	2492.3
Savings	3730.7	4806.9	6929.2	9018.0	11883.9
Fixed	2914.1	3444.5	4298.2	5658.7	6406.0
Call Deposits	565.6	704.4	1293.3	1578.9	2780.6
Others	133.8	116.8	126.6	222.1	221.4
Total	5461.1	6694.9	7430.8	10097.7	13802.4
% Growth	19.38	22.59	10.99	35.89	36.69
Mean	1092.22	1338.98	1486.16	2019.54	2760.50
S.D.	1089.05	1324.88	1474.40	1991.95	2780.84
C.V.%	99.71	98.95	99.21	98.63	100.74

*Source: Annual Report of EBL*

From the table given above it is found that in FY 2006 the deposits growth rate as 56.88%. The deposit growth reduced to 49.62% in FY 2007 and to 19.38% in FY 2006. The growth rate slightly increased to 22.59% in the next fiscal year 2007 and again it dropped down to 10.99% in FY 2008. Later the deposit growth rate again increased to 35.89% and 36.69% in the next two fiscal years 2009 and 2010 respectively. The bank's deposit has an increasing trend in the study period going from 2006 to 2010.

### 4.2.3 Deposits, Loans and Investments of Everest Bank Limited

Table no: 4.5

#### Deposits, Loans and Investments of EBL

Rs. In Million

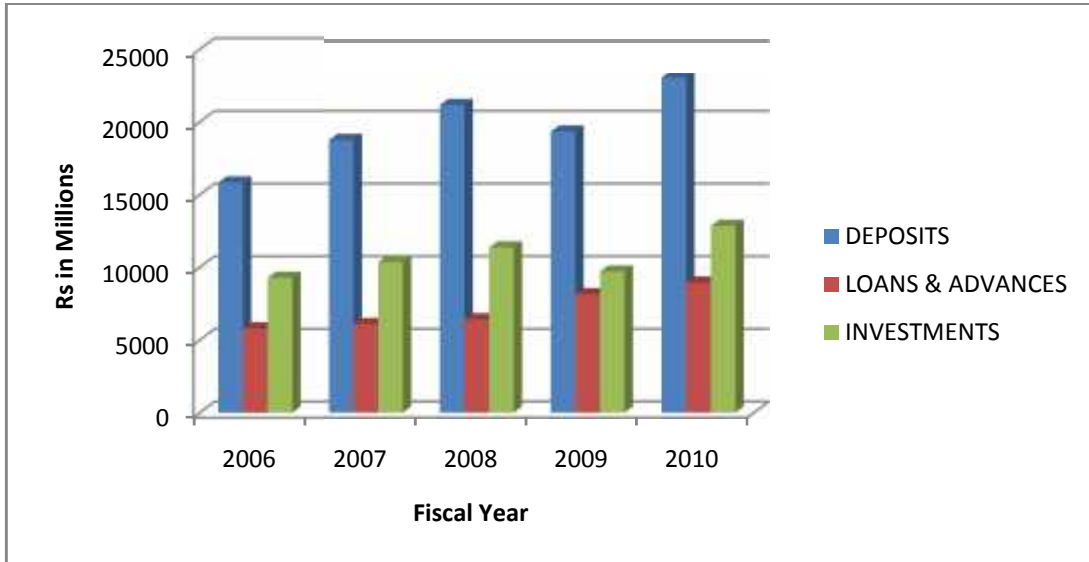
S.No.	Purpose	2006	2007	2008	2009	2010
1	DEPOSITS	8064.0	10097.8	13802.5	19097.7	23976.3
3	LOANS & ADVANCES	6116.6	7914.4	10124.2	14059.2	18814.3
2	INVESTMENTS	2466.4	2100.3	3548.6	4704.6	4906.5
	Loan to deposits%	74.1	75.4	82.0	75.4	71.0
	Investment to deposit %	31.0	24.7	34.1	21.1	30.4
	% Growth of nvestment	87.8	-2.3	53.3	-16.0	97.3

Source: Annual Report of EBL

The above table shows that in FY 2006, 74.3% of the deposit of the EBL has been disbursed as loan and advances, but it reduced to 65.7% in the year 2007. In FY 2008 the loans and advances are recorded as 74.1% and was 75.4% in the next FY 2008 which increased to 82.0% in the following FY 2009 which declined to 75.4% and to 71.0% in the next two FY 2009 and 2010 respectively.

The table clearly depicts that increasing investment and reducing loans and advances from total deposits are the great problem for the banks to manage. The fluctuation in total deposits, loan and investments makes clear about the adjustments problem of the bank.

**Figure no: 4.2**  
**Deposits, loans and investments of EBL**



The figure shows how the loans and investments go graphically as the percentages of total deposits. Here, investment to deposits percentages moves downward till FY 2006 and goes up tremendously in FY 2010. The loan to deposit rates seems quite stable during the study period, whereas growth of the investment seems to continuously fluctuating during the study period.

### 4.3.1 Performances Highlights of Standard Chartered Bank Nepal Limited

Table no: 4.6

#### Sources and Uses of Funds of Standard Chartered Bank Nepal Limited

Rs. In Million

Sources	2006	2007	2008	2009	2010
Capital & reserve	1527.9	1278.2	1576.3	1755.3	2117.2
Deposits	21161.4	19344.0	23050.5	24640.3	29743.9
Borrowings	78.3	43.8	10.2	1190.9	-
Other Liabilities	1691.5	1334.9	1498.3	1658.8	1637.4
<b>Uses</b>					
Liquid funds	4241.8	3370.8	3253.5	3996.1	4247.7
Investments	7948.2	7204.6	8644.9	7115.7	8146.1
Loans & advances	6662.0	8213.5	89.5.1	10538.1	13355.0
Interest accrued	216.0	167.6	146.6	133.5	160.7
Others Assets	2127.4	754.1	1095.4	1158.3	1755.9
Profit after tax	479.2	506.9	537.8	539.2	658.8

Source: Annual Report of SCBNL

The bank has been able to augment its net profit by 22.18% to 658.8 million in the last fiscal year i.e.2009 as compared to Rs.539.2 million as that of the before last year. It was increased regularly during the study period of seven years but the rate of increment varies during the period. The levels of loans and advances have gone up to Rs.8935.4 million from Rs.8143.2 million, registering a growth of 9.73 % in the last fiscal year of 2009 over previous year. Its level was only 4957.5 million in the beginning year of the study period. It has a regular increment in the later years except in the second year of the study period i.e. 2010.

Here, the index analysis on total investment of SC Bank is chosen the FY 2010 as the base year. The bank has also the portfolio of investment including loan and advance 2006 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 2008 is decrease by 2.3%, whereas the investment of the same year is highly increased by 92.4%.

### 4.3.2 Deposits of Standard Chartered Bank Nepal Limited

**Table no: 4.7**

#### **Deposits of Standard Chartered Bank Nepal Limited**

Rs. In Million

S.No	Purpose	2006	2007	2008	2009	2010
1	Current	5816.9	4356.3	4681.8	4794.5	6174.6
2	Savings	12771.8	13027.7	14597.5	15244.2	17856.0
3	Fixed	1428.5	1416.4	2136.3	3196.5	3301.1
4	Call Deposits	941.0	294.9	1125.5	919.0	1938.2
5	Others	203.2	248.7	509.4	486.1	474.0
	<b>Total</b>	<b>15835.7</b>	<b>18755.5</b>	<b>21161.4</b>	<b>19335.1</b>	<b>23061.0</b>
	% Growth	2.6	18.4	12.8	-8.6	19.3
	Mean	3167.1	3751.1	4232.3	3867.0	4612.2
	S.D.	3830.3	4468.4	5252.7	5388.9	5804.4
	C.V.%	120.9	119.1	124.1	139.4	125.8

*Source: Annual Report of SCBNL*

From the data given in table no. 4.12 above, it is found that the total deposits grow by 22.8% in FY 2006 but the growth rate reduced to only 2.6% in the following FY 2006. After the tremendous decrease in the growth rate, the growth rate sluggishly went up to 18.4% in FY 2008. This increase in the deposits continued till next FY 2009. The increase in deposits and reducing investing opportunities lead the bank in canvassing of interest bearing deposits, which resulted in the negative growth rate of deposit i.e. 8.6% in FY 2010 but the deposits again increased by 19.3% reaching Rs.23061.

### 4.3.3 Deposits, Loans and Investments of Standard Chartered Bank Nepal Limited

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

**Table no: 4.8**  
**Deposits, Loans and Investments of SCBNL**

S.No	Purpose	2006	2007	2008	2009	2010
1	DEPOSITS	15835.7	18755.5	21161.4	19335.1	23061.0
3	LOANS & ADVANCES	5787.9	6080.7	6410.2	8143.2	8935.4
2	INVESTMENTS	9276.0	10357.7	11360.3	9702.6	12847.5
	Loan to deposits%	36.5	32.4	30.3	42.1	38.7
	Investment to deposit %	58.6	55.2	53.7	50.2	55.7
	% Growth of Investment	92.4	11.7	9.7	-14.6	32.4
	% Growth of Loan and Advance	-2.30	5.06	5.42	27.04	9.73

*Source: Annual Report of SCBNL*

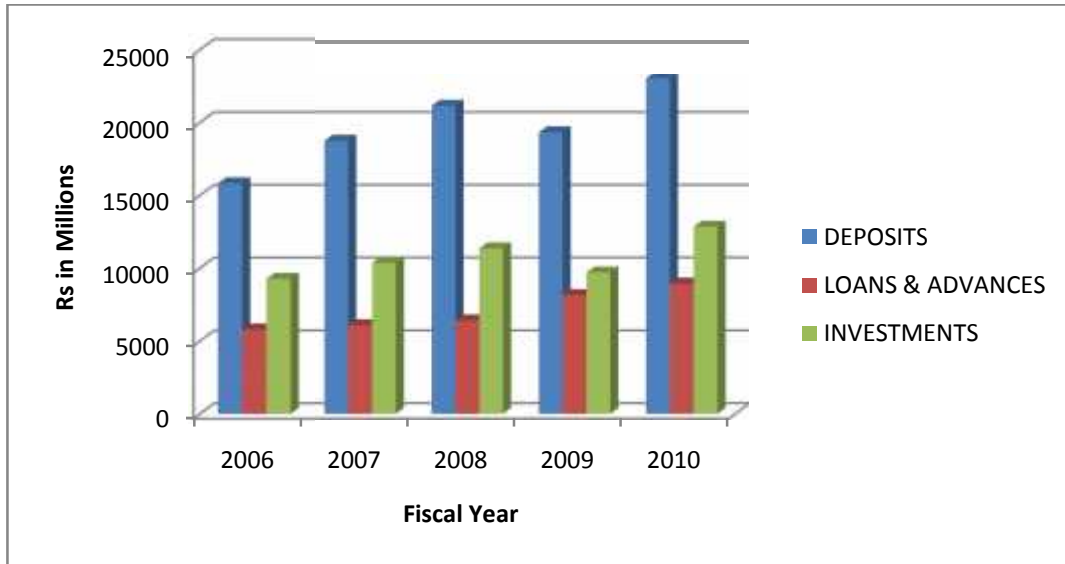
From the above table it is found that the investment growth rate of SCBNL in the FY 2006 is the highest among the increase during the study period. It has highly increased by 92.4% as against 44.0% of the preceding FY 2006. After FY 2010, the rate of increase of investment has gone down to 11.7% and 9.7% in the following two consecutive years. But the investments decreased by 14.6% in the next FY i.e.2006 but it again increased by 32.4% in the last year of the study period i.e.2010. This shows the high fluctuation in the investments of the bank during the study period.

The loans and advances have continuously increased during the study period except in the FY 2006 but the rate of increase varied. It has reached Rs. 8935.4 million in the fiscal year 2010. Total loan to deposit in 2006 noted as 39.5%, which decreased to 38.4% in the year 2006. It again decreased continuously till FY 2006 reaching 30.3% in the FY 2007. It then recorded a good increment reaching 42.1% in the following year i.e. FY 2007 but it decreased to 38.7% in the last year of the study period i.e. FY

2008. The improvement in the banks policies and reductions in CRR policies by the government enables the bank to increase their loans and advances to the growth rate of 19.5% in FY 2006. But in the following year the growth in loans and advances is negative it decreased by 2.3%.

**Fig. 4.3**

**Deposits, Loans & Investment of SCBNL**



The figure shows how the loans and investments go graphically as the percentages of total deposits. It shows the ups and downs of total loan to deposit rate and total investment to deposits in seven years period.

In the growth of investment percentage, there is high fluctuation in the whole study period. The loans to deposit percentages, it is almost constant in the study period.

Investment to total deposits percentages is almost constant to FY 2006. The investment growth rate shows higher ups and down the study period.

**4.2 Financial and Statistical Analysis of Commercial Banks**

Financial and statistical analysis is done by calculating some different types of financial and statistical ratios, which are important from the point of view to analyze deposits and loans of SBI, EBL and SCBNL. Here relevant ratios are calculated and appropriate

interpretations are made. The performance of the concern banks are seen by analysis of financial ratios and all the calculations are done in Microsoft Excel.

#### **4.2.1 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, withdrawals, pay maturity in time and convert non-cash assets into cash to satisfy immediate needs for 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.

##### **4.2.1.1 Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)**

Cash and bank balance to total deposit ratio measures the availability of a bank's 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 in hand, foreign currency cash in 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 has 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 SBI, EBL and SCBNL from FY 2006 to FY 2010 are given below in Table no. 4.14

**Table no. 4.9****Cash and Bank Balance to Total Deposit**

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Everest 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 %
2006	1246.03	5534.2	22.51	1062.9	5689.4	18.682	3031.0	16564.4	18.29
2007	1331.6	6522.8	20.41	1139.6	6694.9	17.02	3170.0	18755.5	16.90
2008	864.4	7198.3	12.01	631.8	7430.8	8.50	4241.8	21161.4	20.04
2009	846.9	8654.8	9.79	1620.0	10097.7	16.04	3370.8	19335.1	17.43
2010	1481.3	11002.0	13.46	1620.0	13802.4	11.74	3253.5	23061.0	14.11
<b>Mean</b>			<b>15.636</b>			<b>14.396</b>			<b>17.354</b>

*Source: Annual Report of Banks*

From the above table, reveals that cash and bank balance to total deposit ratios of all the banks are fluctuating. SBI has increasing trend till 2006. The ratio increases from 22.51% to 18.68% in FY 2006. The ratio decreases to 25.18% in FY 2007 and to 20.41% in FY 2008. This decreasing trend remained till FY 2009 reaching only 9.79% in the FY2009 but it slightly increased to 13.46% in the final year i.e. 2010.

In case of EBL, 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 29.05%, mean ratio of SBI is 19.8% and mean ratio of EBL is 13.1%. The C.V. % of SBI is 45.29%, which is higher than 30.4% of EBL and lower than 70.03% of SCBNL. It shows that the cash and bank balance ratio of SCBNL is more heterogeneous than others.

Comparatively, SCBNL 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, SCBNL may invest in more productive sectors like short-term marketable security, treasury bills etc. to build up strong and efficient liquidity position.

#### **4.2.1.2 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 =

$$\frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

The table no. 4.15 given below shows the investment on Govt. Securities to current asset ratio of SBI, EBL and SCBNL.

**Table no. 4.10****Investment on Government Securities to Current Asset Ratio %**

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Inv. On Govt.Secu.	Current Assets	Ratio %	Inv. On Govt.Secu.	Current Assets	Ratio %	Inv. On Govt.Secu.	Current Assets	Ratios %
2006	864.0	6634.2	13.02	1336.3	7445.3	17.94	6223.0	19597.6	31.7
2007	1189.4	7495.3	15.9	1599.4	7942.6	20.1	6722.8	20797.6	32.3
2008	1889.6	8378.1	22.6	2466.4	9490.2	26.0	7948.2	22012.3	36.1
2009	2588.1	9668.5	26.8	2100.3	11367.6	18.5	7203.1	21216.6	34.0
2010	3591.8	12718.8	28.2	3548.6	15621.7	22.7	8644.9	25036.5	34.5
<b>Mean</b>			<b>21.304</b>			<b>21.048</b>			<b>33.72</b>

Source: Annual Report of Banks

The above table 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 EBL shows more fluctuations than SBI and SCBNL. The ratio of SBI continuously increased in going from FY 2006 to 2010.

#### 4.2.1.3 Loans and 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,

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

The table below shows the ratio of loan & advances to current asset ratio of SBI, EBL and SCBNL.

**Table no: 4.11**  
**Loans & Advances to Current Assets Ratio %**

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Loan & Advance	Current Assets	Ratios %	Loan & Advance	Current Assets	Ratios %	Loan & Advance	Current Assets	Ratios %
2006	4263.1	6934.2	61.4	4406.4	7445.3	59.183	5663.3	19597.6	28.8
2007	4766.1	7495.3	63.6	4908.5	7942.6	61.8	6080.7	20797.6	29.2
2008	5143.7	8378.1	61.4	5884.1	9490.2	62.0	6410.2	22012.3	29.1
2009	6213.9	9668.5	64.3	7618.7	11367.6	67.0	8143.2	21216.6	38.4
2010	7626.7	12718.8	60.0	9801.3	15621.7	62.7	8935.4	25036.5	35.7
<b>Mean</b>			<b>62.14</b>			<b>62.536</b>			<b>32.24</b>

*Source: Annual Report of Banks*

The above table shows that loans & advances to current asset ratio of SBI are in fluctuating trend during the study period. While examining the mean ratio SCBNL has maintained lower ratio of 32.1% than that of SBI and EBL. On the other hand, coefficient of variance of SCBNL is higher than that of SBI and EBL i.e.,  $11.1 > 6.8 > 5.0$ , which indicate that high consistency of EBL'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 SBI is higher; it reveals that their liquidity position with regard to this ratio is satisfactory.

## 4.2.2 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.

### 4.2.2.1 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 SBI, EBL and SCBNL.

**Table no: 4.12****Loan and Advances to Working Fund Ratio**

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Everest 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 %
2006	4263.1	7435.6	57.3	4406.4	7834.4	56.24	5663.3	21024.2	26.9
2007	4766.1	8000.6	59.6	4908.5	8052.2	61.0	6080.7	22309.1	27.3
2008	5143.7	8440.4	60.9	5884.1	9608.6	61.2	6410.2	23642.1	27.1
2009	6213.9	10345.4	60.1	7618.7	11732.5	64.9	8143.2	21893.6	37.2
2010	7626.7	13035.8	58.5	9801.3	15959.3	61.4	8935.4	25776.3	34.7
<b>Mean</b>			<b>59.28</b>			<b>60.948</b>			<b>30.64</b>

*Source: Annual Report of Banks*

Referring to the above table, the loan & advances to total working fund ratios of all banks are exhibits fluctuating trend. The ratio of SBI and EBL are higher than SCBNL. EBL has highest ratio of 64.9% in FY2009 and lowest of 56.24% in FY2006 during the study period. Similarly, the highest ratio for SBI is 60.9% in FY 2008 and lowest is 57.3% in FY 2006. SCBNL has the comparatively lower rate then SBI and EBL. From the above analysis, it is concluded that all the banks have mobilizing working fund, as loan and advances is satisfactory.

#### **4.2.2.2 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 extend 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,

Investment on Govt. securities to Working Fund Ratio

= Investment on Government securities

Total working fund

Investment on government securities to total working fund ratio of SBI, EBL and SCBNL from FY 2006 to 2010 are given in the table below.

**Table no: 4.13**

**Investment on Government Securities to Total Working Fund Ratio**

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Everest 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 %
2006	864.0	7435.6	11.61	1336.3	7834.4	17.0	6223.0	21024.2	29.59
2007	1189.4	8000.6	14.9	1599.4	8052.2	19.9	6722.8	22309.1	30.1
2008	1889.6	8440.4	22.4	2466.4	9608.6	25.7	7948.2	23642.1	33.6
2009	2588.1	10345.4	25.0	2100.3	11732.5	17.9	7203.1	21893.6	32.9
2010	3591.8	13035.8	27.6	3548.6	15959.3	22.2	8644.9	25776.3	33.5
<b>Mean</b>			<b>20.302</b>			<b>20.54</b>			<b>31.938</b>

*Source: Annual Report of Banks*

From the above table, it is observed that investment on government securities to working fund ratio for SBI, EBL and SCBNL was 11.61% , 17.0% and 29.59 in FY 2006 and 27.6%, 22.2% and 33.5% representely. In FY 2007 it again increased to 14.9%. There is continuous increase in the ratio and reaches to 27.6% in FY 2010.

**4.2.2.3 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 no: 4.14**

**Investment on Shares and Debentures to Total Working Fund Ratio %**

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Everest 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
2006	16.4	7435.6	0.22	16.2	7834.4	0.20	10.4	21024.2	0.049
2007	17.9	8000.6	0.22	17.1	8052.2	0.21	11.2	22309.1	0.05
2008	17.9	8440.4	0.21	17.6	9608.6	0.18	11.2	23642.1	0.05
2009	19.4	10345.4	0.19	19.6	11732.5	0.17	13.3	21893.6	0.06
2010	19.9	13035.8	0.15	19.6	15959.3	0.12	15.3	25776.3	0.06
<b>Mean</b>			<b>0.198</b>			<b>0.176</b>			<b>0.0538</b>

*Source: Annual Report of Banks*

From the above table it is found that the investment on shares and debentures to total working fund ratios for all the banks are in fluctuating trend. SBI has the lowest ratio of 0.22% in 2006 and highest ratio of 0.22% in 2006. In other years the ratio remained around 0.2%. The ratio is 0.17%, 0.22%, 0.21%, 0.19% and 0.15% in the FY 2006 to 2010 respectively. In average, SCBNL has maintained lowest investment on shares and debentures to total working fund ratio and SBI has the highest ratio.

### 4.2.3 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 transactions, 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 ratios, which are related with profit and fund mobilizing is only studied under this heading.

#### 4.2.3.1 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, demand loans, term loans, bills purchased and discounted.

We have,

The table below shows the return on loans and advances of SBI, EBL and SCBNL.

**Table no: 4.15**  
**Return on Loan & Advances Ratio %**

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Everest 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 %
2006	46.3	4263.1	1.0	82.3	4406.4	1.8	492.0	5663.3	8.6
2007	48.7	4766.1	1.0	94.2	4908.5	1.9	506.9	6080.7	8.3
2008	60.9	5143.7	1.2	143.6	5884.1	2.4	537.8	6410.2	8.4
2009	57.4	6213.9	0.9	168.2	7618.7	2.2	536.2	8143.2	6.6
2010	117.0	7626.7	1.5	237.3	9801.3	2.4	658.8	8935.4	7.4
<b>Mean</b>			<b>1.12</b>			<b>2.14</b>			<b>7.86</b>

Source: Annual Report of Banks

The above table clearly shows that the return on loans and advances ratio of SBI is highly fluctuating. There is no consistency during the study period. The return on loan and advances in FY 2006 was 1.0%. In 2009 the ratio went up to 0.9% and it again slightly went up to 1.0% and to 1.2% in following FY 2007 and 2008 respectively. Then after it declined to 0.9% in the next FY 2009 but it again highly raised to 1.5% in the last year of the study period i.e. FY 2010. This analysis depicts that EBL is really facing the problems in investing their excess funds in profitable loans and advances.

In average, the mean ratio for SCBNL is more than that of EBL and SBI i.e. 7.7% > 2.2% > 1.0%. The coefficient of variation of SBI is more than that of EBL and SCBNL i.e. 39.1 > 11.0 > 8.8. This shows that SCBNL's ratios are more consistent and uniform than SBI and EBL.

#### **4.2.4 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. Though following ratio effort has been made to measure the level of risk of credit.

##### **4.2.4.1 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 SBI, EBL and SCBNL for the FY 2006 to 2010.

**Table 4.16**  
**Credit Risk Ratio %**

Rs. In Million

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Loan & Advance	Total Assets	Ratios	Loan & Advance	Total Assets	Ratios	Loan & Advance	Total Assets	Ratios
			%			%			%
2006	4263.1	7435.6	57.3	4406.4	7834.4	56.2	5663.3	21024.2	26.93
2007	4766.1	8000.6	56.4	4908.5	8052.2	57.4	6080.7	22309.1	27.7
2008	5143.7	8440.4	66.1	5884.1	9608.6	58.8	6410.2	23642.1	29.4
2009	6213.9	10345.4	59.6	7618.7	11732.5	61.1	8143.2	21893.6	27.3
2010	7626.7	13035.8	67.1	9801.3	15959.3	61.4	8935.4	25776.3	25.7
<b>Mean</b>			<b>61.3</b>			<b>58.98</b>			<b>27.406</b>

*Source: Annual Report of Banks*

The above table shows that SBI has maintained the highest credit ratio among the three banks. It has maintained a lowest of 56.4% in FY 2007. It has followed the fluctuating trend during the study period. Similarly, the credit ratio of EBL is also showing fluctuating trend. It has maintained a highest ratio of 61.4% and the lowest ratio of 56.2% in the FY 2010 and 2006 respectively. But the Ratio of SCBNL is in the decreasing trend. It was 26.93% in FY 2006 and 25.7% in 2010.

The mean ratios for SBI and EBL are almost similar but the ratio of SCBNL is very low then others. The mean ratio of SBI is 62.2%, which, is slightly greater than that of EBL i.e., 61.3%. It is only 29.5% in case of SCBNL. The C.V. ratio of SCBNL is greatest and that of EBL the lowest among the three banks i.e., 13.4% > 7.9% > 5.3%. Which indicates that the credit stability of SCBNL is inconsistent than EBL and SBI.

### 4.3 Co-efficient of Correlation Analysis 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.

#### 4.3.1 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 and advances.

The following table no. 4.22 shows the co-efficient of correlation between deposits and total investment for SBI, EBL and SCBNL.

**Table no: 4.17**

#### **Co-efficient of Correlation between deposit and total investment**

<b>Banks</b>	<b>Evaluation Criteria</b>		
	<b>r</b>	<b>P. Er.</b>	<b>6 P. Er.</b>
SBI	0.951	0.036	0.216
EBL	0.941	0.043	0.258
SCBNL	0.893	0.077	0.461

Source :Annex-vi

From the above table, it is found that the coefficient of correlation between deposit (independent) and total investment (dependent) variables 'r' is 0.951 which shows positive correlation for SBI. The value of r is much higher than the value of 6P.Er. ie, 0.216, this shows that the relationship between the deposit and total investment of SBI is significant.

In case of EBL, coefficient of correlation between deposits and total investment value of 'r' is 0.941. It shows positive relationship between two variables. By considering the probable error since the value of 'r' i.e., 0.941 is more than six times of P.Er. i.e., 0.258 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. 0.893. The value of 'r' is more than the value of 6P.Er. i.e.0.461. This shows that the relationship between the deposit and total investment of SCBNL is significant.

### **4.3.2 Co-efficient of Correlation and Regression Analysis Between Deposit and Loan and Advances**

Deposits play a very crucial 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 and advances of SBI, EBL and SCBNL.

**Table 4.18**  
**Correlation between deposit and Loan and advances**

<b>Banks</b>	<b>Evaluation Criteria</b>		
	<b>r</b>	<b>P.Er.</b>	<b>6 P.Er.</b>
SBI	0.972	0.021	0.125
EBL	0.995	0.004	0.024
SCB	0.825	0.121	0.726

Source :Annex-vi

From the table, it is found that the coefficient of correlation between deposits and loan and advances of SBI is 0.972. It shows positive relationship between two variables. Further, value of P.Er. is 0.021 and 6P.Er. is 0.125; 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 SBI.

In case of EBL, it is found that coefficient of correlation between deposit and loan & advances is 0.995. It shows positive relationship between two variables. The value of 'r' (0.995) is greater than the value of 6P.Er. i.e., 0.024, which shows the significant relationship between deposit and loan & advances of EBL.

Likewise, it is found that the coefficient of correlation between deposit and loan and advances of SCBNL is 0.825. It also shows the positive relationship between two variables. The value of 'r' is greater than the value of 6P.Er. i.e.0.726, which reveals that there is significant relationship between deposit and Loan & Advances in case of SCBNL.

#### **4.4 Regression Analysis**

Regression is statistical tools which is used to determine the statistical relationship between two or more variables and so make estimate of one variable on the basis of the other variable. Regression is the line which gives the best estimate of one variable for any given value of the other value. The regression line of Y on X estimate the most probable value of Y for given values of X.

X is independent variable

Y is dependent variable

The regression equation of Y on X expressed as  $Y = a + bx$

Where,

A and b are parameters of the line.

To find out the exact relationship between different variables simple regressions analysis has been done and results of the analysis have been tabulated

**Table 4.19**

**Calculation of Regression Equation Between Net profits on Total deposits**

<b>Banks</b>	<b>Regression equations</b>	<b>Value ( a) Constant</b>	<b>Regression Coefficient (b)</b>
<b>SBI</b>	<b>Y =-25.1789 +0.0112479 x</b>	<b>a = -25.1789</b>	<b>B = 0.0112479</b>
<b>EBL</b>	<b>Y = -13.6838 + 0.0182983 x</b>	<b>A = -13.6838</b>	<b>B = 0.0182983</b>
<b>SCBNL</b>	<b>Y = 98.30463 + 0.0226260 x</b>	<b>a = 98.30463</b>	<b>B = 0.0226260</b>

Source :Annual Report 2009/10

The above table is the collection of major outputs of simple regression analysis of net profit on total deposit.

The regression equation of net profit (Y) dependent variable on total deposit(X) independent variable  $Y = -25.1789 + 0.0112479 x$  in SBI is negative but coefficient of equation is positive i.e.  $b = 0.0112479$  which indicates the positive relationship between net profit on total deposit or it can be defined that one million increase in total deposit leads to average 0.0112479 million increase in net profit. The value of constant ( a) is comparatively lower. Similarly in case of EBL the regression coefficient is positive or in other words one million increases in total deposit leads to average about 0.0182983 million increase in net profit. The value of constant ( a ) is relatively lower than SCBNL and higher than SBI. The regression equation of SCBNL is positive and its constant ( a ) and coefficient ( a) is positive. It means that one million increase in total deposit leads to an average about 0.0226260 increases in net profit. Regression coefficient reveals that the positive relationship between net profit and total deposit.

**Table 4.20**

**Calculation of Regression equation between Net Profit on Total investment**

<b>Banks</b>	<b>Regression equations</b>	<b>Value ( a) Constant</b>	<b>Regression Coefficient (b)</b>
<b>SBI</b>	<b>Y = 24.17888 + 0.0209158 x</b>	<b>a =24.17888</b>	<b>B=0.0209158</b>
<b>EBL</b>	<b>Y = 22.045309 + 0.0512403 x</b>	<b>a = 22.045309</b>	<b>B=0.0512403</b>
<b>SCBNL</b>	<b>Y = 305.88847 + 0.0227019 x</b>	<b>a=305.88847</b>	<b>B=0.0227019</b>

Source :Annual Report 2009/10

The above table is the collection of major outputs of simple regression analysis of net Profit on total investment. The regression equations of net profit and total investment in SBI, is positive, in other words, Constant ( a) and coefficient (b) are positive in SBI. In other words, one million increase in total investment leads to average 0.0209158 million increase in net profit. The value of (a) is relatively low, the value of ( a ) indicates that if total investment is 0 then the value of net profit is 24.17888 million. So from analysis it shows that the net profit will be increase, the total investment also increases.

Regression equation of EBL is also positive, which indicates that the one million increase in total investment leads to an average about 0.0512403 million increases in net profit. The value of constant ( a) is relatively high.

In the case of SCBNL, Its regression line also positive, in other words, one million increase in total investment leads to average about 0.0227019 million increases in net profit.

**Table 4.21**

**Calculation of Regression equation between Total Investment on Total Deposit**

<b>Banks</b>	<b>Regression equations</b>	<b>Value ( a) Constant</b>	<b>Regression Coefficient (b)</b>
<b>SBI</b>	<b>Y= -2617.5571 + 0.57377x</b>	<b>a= -2617.5571</b>	<b>B= 0.57377</b>
<b>EBL</b>	<b>Y = -473.59681 + 0.326476 x</b>	<b>a=-473.59681</b>	<b>B= 0.326476</b>
<b>SCBNL</b>	<b>Y = -7143.5792 + 0.885656 x</b>	<b>a =-7143.5792</b>	<b>B=0.885656</b>

Source :Annual Report 2009/10

The above Table is the collection of major output of simple regression analysis of total investment on total deposit.

The regression equation of total investment ( Y ) dependent variable on total deposit ( X) independent variable  $Y = 2617.5571 + 0.57377x$  in SBI is positive i.e. 0.57377 which indicates the positive relationships exists between total investment and total deposit or it can be said that one million increase in total deposit leads to average about average 0.57377 million increases in total investment. The value of constant ( a) is

negative and relatively low. Similarly EBL and SCBNL , the regression coefficients are positive or in other words one million increase in total deposit leads to increase in average 0.326476 and 0.885656 million in total investment respectively.

The value of constant (a) indicates that the total investment can be increased and total deposits also increase. The regression coefficient is positive which reveals that the positive relationship between total investment and total deposit

From the test of “ t “ statistics it can be concluded that in all regression cases the results are not statistically significant at 5% level of significance since the value of t is smaller than tabulated value.

## 4.5 Test of Hypothesis

### 4.5.1 Test of Hypothesis on Cash and Bank Balance to Total Deposits Ratio

To test the ratios of cash and bank balance to total deposits of SBI, EBL and SCBNL are taken under statistical tools T- test has been done.

**Table 4.22**

**Cash and Bank balance to Total deposits Ratios Between SBI, EBL and SCBNL**

Fiscal Year	SBI			EBL			SCBNL		
	$x_1$	$x_1 Z \bar{X}_1$	$X_1^2$	$x_2$	$x_2 Z \bar{X}_2$	$X_2^2$	$x_3$	$x_3 Z \bar{X}_3$	$X_3^2$
2006	22.51	6.874	47.25188	18.682	4.2856	18.3663674	18.29	0.936	0.8761
2007	20.41	4.774	22.79108	17.02	2.6236	6.88327696	16.9	-0.454	0.20612
2008	12.01	-3.626	13.14788	8.5	-5.8964	34.767533	20.04	2.686	7.2146
2009	9.79	-5.846	34.17572	16.04	1.6436	2.70142096	17.43	0.076	0.00578
2010	13.46	-2.176	4.734976	11.74	-2.6564	7.05646096	14.11	-3.244	10.5235
<b>Total</b>	<b>78.18</b>		<b>122.1015</b>	<b>71.982</b>	<b>0</b>	<b>69.7750592</b>	<b>86.77</b>	<b>0</b>	<b>18.8261</b>
<b>Average</b>	<b>15.636</b>		<b>24.420304</b>	<b>14.3964</b>		<b>13.95501184</b>	<b>17.354</b>		<b>3.765224</b>

Source :Annual Report 2009/10

We have,

$$X_1 \sum x_1 Z \bar{X}_1$$

$$X_2 \sum x_2 Z \bar{X}_2$$

$$X_3 \sum x_3 Z \bar{X}_3$$

#### 4.5.1.2 Test of Significance Difference Between SBI and EBL

To test the significant relationship between SBI and EBL under Statistical tool, T-test has been done.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{sp^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$sp^2 = \frac{1}{n_1 + n_2 - 2} \left( \sum x_1^2 + \sum x_2^2 - \frac{\sum x_1^2}{n_1} - \frac{\sum x_2^2}{n_2} \right) \quad \text{with degree of frequency} = n_1 + n_2 - 2$$

$$= \frac{1}{5 + 5 - 2} \left( 22.1015 + 69.775 - \frac{22.1015^2}{5} - \frac{69.775^2}{5} \right)$$

$$= 23.9845$$

Now, Test Statistics under  $H_0$  is,

$$t = \frac{15.63 - 14.3964}{\sqrt{23.9845 \left( \frac{1}{5} + \frac{1}{5} \right)}}$$

$$= 0.3035$$

with degree of frequency =  $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The Calculated Value of t = 0.3035

#### Decision:

Since The calculated value of t i.e. 1.8139 is greater than the tabulated value i.e. 1.782. The null hypothesis is rejected. This means there is significant difference between mean ration of cash and bank balance to total deposit of SBI and EBL.

#### 4.5.1.2 Test of Significance Difference Between SBI and SCBNL

To test the significant relationship between SBI and SCBNL under statistical tool, T-test has been done.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{sp^2 \left( \frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

where,

$$\begin{aligned} sp^2 &= \frac{1}{n_1 + n_3 - 2} \left( \sum x_1^2 + \sum x_3^2 \right) \\ &= \frac{1}{5 + 5 - 2} (22.1015 + 18.826) \\ &= 17.615 \end{aligned}$$

Now, test statistics is,

$$\begin{aligned} t &= \frac{15.63 - 17.354}{\sqrt{17.615 \left( \frac{1}{5} + \frac{1}{5} \right)}} \\ &= 0.648 \end{aligned}$$

The calculated value of t = -1.101

With degree of freedom =  $n_1 + n_3 - 2 = 5 + 5 - 2 = 8$

#### Decision:

Since The calculated value of t i.e. -1.101 less than the tabulated value 1.782. So the null hypothesis is accepted i.e. there is no significant difference between mean ratio of cash & bank balance to Total deposit of SBI and SCBNL.

#### 4.5.2 Test of Hypothesis on Investment on Government Securities to Current Assets Ratio

To test the ratios of Investment on government securities to current assets of SBI, EBL and SCBNL are taken under statistical tools T test has been done.

**Table 4.23**  
**Investment on government securities to current assets Ratios Between SBI, EBL and SCBNL**

Fiscal Year	SBI			EBL			SCBNL		
	$x_1$	$x_1 Z \bar{X}_1$	$X_1^2$	$X_2$	$x_2 Z \bar{X}_2$	$X_2^2$	$x_3$	$x_3 Z \bar{X}_3$	$X_3^2$
2006	13.02	-8.284	68.62466	17.94	-3.108	9.65966	31.7	-2.02	4.0804
2007	15.9	-5.404	29.20322	20.1	-0.948	0.8987	32.3	-1.42	2.0164
2008	22.6	1.296	1.679616	26	4.952	24.5223	36.1	2.38	5.6644
2009	26.8	5.496	30.20602	18.5	-2.548	6.4923	34	0.28	0.0784
2010	28.2	6.896	47.55482	22.7	1.652	2.7291	34.5	0.78	0.6084
Total	<b>106.52</b>		<b>177.2683</b>	<b>105.24</b>	<b>1.066E-14</b>	<b>44.3021</b>	<b>168.6</b>	<b>3.5527E-15</b>	<b>12.448</b>
Average	<b>21.304</b>		<b>35.453664</b>	<b>21.048</b>		<b>8.860416</b>	<b>33.72</b>		<b>2.4896</b>

Source: Annual Report 2009/010

#### 4.5.2.2 Test of Significance Difference Between SBI and EBL

To test the significant relationship between SBI and EBL under Statistical tool, T-test has been done.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{sp^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$s^2 = \frac{1}{n_1 + n_2 - 2} \left[ \sum_{i=1}^{n_1} x_i^2 + \sum_{i=1}^{n_2} x_i^2 - \frac{(\sum_{i=1}^{n_1} x_i)^2}{n_1} - \frac{(\sum_{i=1}^{n_2} x_i)^2}{n_2} \right]$$

with degree of frequency =  $n_1 + n_2 - 2$

$$\begin{aligned} &= \frac{1}{5 + 5 - 2} \left[ 77.2 + 44.302 - \frac{(21.304)^2}{5} - \frac{(21.048)^2}{5} \right] \\ &= 27.687 \end{aligned}$$

Now, Test Statistics under  $H_0$  is,

$$\begin{aligned} t &= \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \\ &= \frac{21.304 - 21.048}{\sqrt{27.687 \left( \frac{1}{5} + \frac{1}{5} \right)}} \\ &= 0.076 \end{aligned}$$

with degree of frequency =  $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The Calculated Value of  $t = 0.076$

**Decision:**

Since The calculated value of  $t$  i.e. -0.791 is less than the tabulated value i.e. 1.782. The null hypothesis is Accepted. This means there is no significant difference between mean ratio of Investment on government securities to current assets of SBI and EBL.

**4.5.2.2 Test of Significance Difference Between SBI and SCBNL**

To test the significant relationship between SBI and SCBNL under statistical tool, T-test has been done.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

where,

$$\begin{aligned}
sp^2 &= \frac{1}{n_1 + n_2 - 2} \left[ \sum_{i=1}^{n_1} x_i^2 + \sum_{j=1}^{n_2} x_j^2 - \frac{(\sum_{i=1}^{n_1} x_i)^2}{n_1} - \frac{(\sum_{j=1}^{n_2} x_j)^2}{n_2} \right] \\
&= \frac{1}{5 + 5 - 2} [77.268 + 12.448 - \frac{17.304^2}{5} - \frac{2.4896^2}{5}] \\
&= 23.705
\end{aligned}$$

Now, test statistics is,

$$\begin{aligned}
t &= \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{sp^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \\
&= \frac{21.304 - 2.4896}{\sqrt{23.705 \left( \frac{1}{5} + \frac{1}{5} \right)}} \\
&= 5.946
\end{aligned}$$

The calculated value of  $t = 5.946$

With degree of freedom =  $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

#### **Decision,**

Since The calculated value of  $t$  i.e.  $5.946$  is less than the tabulated value  $1.782$ . So the null hypothesis is accepted i.e. there is no significant difference between mean ratio of Investment on government securities to current assets of SBI and SCBNL.

#### **4.5.3 Test of Hypothesis on Investment on Government Securities to Total Working Fund Ratio**

To test the ratios of Investment on government securities to total working fund of SBI, EBL and SCBNL are taken under statistical tools, T test has been done. By analysis of this ratio shows that how bank has investment safe from default risk. It defines what portion of investment are invested in government securities. It compares sample bank investment in government securities. To find out some major hints, analysis has been done.

**Table 4.24**  
**Investment on government securities to total working fund ratios Between SBI,**  
**EBL and SCBNL**

Fiscal Year	SBI			EBL			SCBNL		
	$x_1$	$x_1 Z \bar{X}_1$	$X_1^2$	$X_2$	$x_2 Z \bar{X}_2$	$X_2^2$	$x_3$	$x_3 Z \bar{X}_3$	$X_3^2$
2006	11.61	-8.692	75.55086	17	3.54	12.5316	29.59	-2.348	5.5131
2007	14.9	-0.2	0.04	19.9	0.64	0.4096	30.1	-1.838	3.37824
2008	22.4	7.3	53.29	25.7	5.16	26.6256	33.6	1.662	2.76224
2009	25	9.9	98.01	17.9	2.64	6.9696	32.9	0.962	0.92544
2010	27.6	12.5	156.25	22.2	1.66	2.7556	33.5	1.562	2.43984
<b>Total</b>	<b>101.51</b>		<b>383.1409</b>	<b>102.7</b>		<b>49.292</b>	<b>159.69</b>		<b>15.0189</b>
<b>Mean</b>	<b>20.302</b>			<b>20.54</b>			<b>31.938</b>		

Source: Annual Report 2009/010

We have,

$$X_1 \quad X x_1 Z \bar{X}_1 \quad X_2 \quad X x_2 Z \bar{X}_2 \quad X_3 \quad X x_3 Z \bar{X}_3$$

#### 4.5.3.1 Test of Significance Difference Between SBI and EBL

To test the significant relationship between SBI and EBL under Statistical tool, T-test has been done.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{sp^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$sp^2 = \frac{1}{n_1 + n_2 - 2} \left( \sum x_1^2 - \frac{(\sum x_1)^2}{n_1} + \sum x_2^2 - \frac{(\sum x_2)^2}{n_2} \right)$$

with degree of frequency =  $n_1 \Gamma n_2 Z 2$

$$= \frac{1}{5 \Gamma 5 Z 2} \sqrt{383.14 Z 49.292^2}$$

$$= 54.054$$

Now, Test Statistics under  $H_0$  is,

$$t = \frac{20.302 Z 20.54}{\sqrt{54.054 \left( \frac{1}{5} \Gamma \frac{1}{5} \right)}}$$

$$= -0.0511$$

with degree of frequency =  $n_1 \Gamma n_2 Z 2 = 5+5-2 = 8$

The Calculated Value of  $t = -0.0511$

The tabulated Value of  $t$  at  $\alpha = 0.05$  level of significance for two tailed test and for 12 degree of freedom is 1.782 i.e.  $t_{0.05}(12) = 1.782$

#### **Decision:**

Since The calculated value of  $t$  i.e. -0.843 is less than the tabulated value i.e. 1.782. The null hypothesis is accepted. This means there is no significant difference between mean ratio of investment on government securities to total working fund of SBI and EBL.

#### **4.5.3.2 Test of Significance Difference Between SBI and SCBNL**

To test the significant relationship between SBI and SCBNL under statistical tool, T-test has been done.

We have,

$$t = \frac{\bar{X}_1 Z \bar{X}_3}{\sqrt{sp^2 \left( \frac{1}{n_1} \Gamma \frac{1}{n_3} \right)}}$$

where,

$$sp^2 = \frac{1}{n_1 \Gamma n_3 Z 2} \left( \sum x_1^2 \Gamma \sum x_3^2 \right)$$

$$= \frac{1}{5} \sqrt{\frac{1}{5} \Gamma \frac{1}{5}} \sqrt{0.151 \Gamma 159.69} \\ = 32.65$$

Now, test statistics is,

$$t = \frac{20.302 - 31.938}{\sqrt{32.65 \left( \frac{1}{5} \Gamma \frac{1}{5} \right)}}$$

$$= 3.223$$

The calculated value of  $t = 3.223$

With degree of freedom =  $n_1 \Gamma n_2 - 2 = 5 + 5 - 2 = 8$

The Tabulated value of at 5% confidence level of significance for  $(n_1 \Gamma n_2 - 2)$  degree of freedom in a two tailed test is 1.782 i.e.  $t_{0.05}(12) = 1.782$

### **Decision,**

Since The calculated value of  $t$  i.e. -3.056 less than the tabulated value 1.782. So the null hypothesis is accepted i.e. there is no significant difference between mean ratio of investment on government securities to total working fund of SBI and SCBNL.

## **4.6 Analysis of Primary Data**

The primary data analysis has been done through the interview and questionnaires basis. The interpretation of the primary data are presented in this section of the study. The third objective of the study in loan investment and profit of bank is measured through the questions and answers of different level personalities. The analysis has been presented below to give the clear idea of the analysis:

### **4.6.1 Factors That Should Be Considered While Making Investment Decision**

The basic principles 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, experience and the qualification of the promoter.

The government's economic policies can make certain ventures. It is very important to do a 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 labour intensive industry proximity to source of cheap labour 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 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

#### **4.6.2 Whether the 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 avoiding their interest bearing deposits, which may reduce their target deposit. From the deposit of SBI during the study period it is clear that they have reduced their deposit growth rate in FY 2001/02 to negative rate (-15.8%). From EBL also the growth rate of deposit has decreased from FY 2006 to 10.99% from 22.59% in FY 2010. This makes clear that both the banks are maintaining their target deposits.

#### **4.6.3 Whether the Banks are using their deposits properly or not?**

In using 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 investment 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 of changing government policies.

They are investing their excess funds in other investments rather than in loans and advances. While doing so they are bearing their margin loss of at least 2%, but it is better than keeping money idle for nothing.

#### **4.6.4 The Gap Between Deposits and Credit is Increasing Rather than Decreasing**

1. 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.
2. The corporate sector is not happy with the commercial banks' lending rates at a time business slackness is observed in the economy.
3. The business community also played a role for relatively low demand for bank credit observes the problem with the introduction of VAT.

#### **4.6.5 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.

#### **4.6.6 Margin Rate of Securities**

The bank while placing the collateral keeps the margin for the bank in the total value of goods, movables, assets and other securities. The bank determines the actual market value of the securities than fixes its margin and determine the value the collateral by the remaining percentage.

The margin varies according to the types of collateral.

#### **DIFFERENT RATES**

Assets	Margin Suggested
Land	33 to 50%
Building	25 to 50%
Plant and machinery	25%
Stock	30%
Others	25 to 30%

#### **4.6.7 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.

##### **4.6.7.1 High Lending Rate**

As industries in Nepal are not performing well due to slowdown in economic activities and a host of the factors, they are unable to bear the interest rate that is 8% to 12%, which is relatively high. This leads in credit deadlock for the commercial banks.

#### **4.6.7.2 Real Estate Crash**

When the real estate business began to decline in 1994/95, 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.

#### **4.6.7.3 Problem in Carpet Industry**

Due to the illegal smuggling of low quality carpet, the child labour issue, and the issues involved in the use of particular chemical adversely affected the carpet industry. The decline in carpet industry also led to the addition to the non-performing assets of commercial banks. The fresh loan disbursements to this sector also declined due to the curtailment of carpet production. The resulting impact of this has been the deceleration in the overall bank credit growth in recent times.

#### **4.6.7.4 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.

#### **4.6.7.5 NRB's Policies**

Maturity restrictions on rediscounting of government papers removed.

- ) Bank rate reduced
- ) Withdrawals of NRB bonds from the market
- ) Cash reserve ratio lowered
- ) Directives to reduce interest

#### **4.6.7.6 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.

#### **4.6.7.7 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.

#### **4.7 Major Findings of the Study**

- ) In case of SBI, From the average deposit of seven-years study period, there is a increase of 24.09% in 2006 & in 2007 it slightly declined to 23.98%. The declination in the percentage growth rate in average deposits remained till FY 2008 in which the growth rate is very nominal i.e. only 1.86%. The growth rate in the FY 2009 is 21.84% and in 2010 is 17.31%..
- ) Loans and advances of SBI shows continuous decline during the initial period of the study period. It is recorded as 17.31%, 10.00%, -2.73% in FY 2006, 2007 and 2008 respectively. Then after the growth rate is in the increasing trend. The growth rate is 15.11%, 20.081% and 22.74%. The investment of SBI is also fluctuating highly during the study period. The various ups and downs are seen in investment portfolio of SBI.
- ) The deposits of EBL show high fluctuation in its growth rate. The amount of deposit is continuously increasing during the study period even though there is a ups and downs in the growth rate. The deposits growth rate of EBL ranges from 10.99% to 56.88%. Thus we can conclude that there is a high fluctuation in the growth rate in deposits of EBL.

#### **Primary datas Finding**

- ) 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 loans 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, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Summary**

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 around 5-6%, 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 in FY 2006 and the deposit level had increased during the study period except in the FY 2007 at which the deposit had a negative growth rate of 15.8% which leads to improve banks' policy. In 2008 SBI 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. In case of EBL 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 EBL and SCBNL are better than SBI. 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 SBI and EBL 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. 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 SBI 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. Deposits are being excess and idle in these banks.

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 problems that these banks are facing. These banks should take these problems seriously.

## **5.2 Conclusions**

Liberal economic policy of government has encouraged the establishment and growth of commercial banks in the country with in short span of time. In Nepal there are 19 registered commercial banks and branches all over the country. This number has further increased during my period of collection of necessary data and information for this study. Most of the commercial banks are widening their networks by opening new branches at various places of the country due to the re-establishment of peace in the nation.

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 5-6%, 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 2006, which leads to improve banks' policy. In 2007 SBI 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. In case of EBL 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, loans and advances & investment makes clear about adjustment problem for the banks. The liquidity position of SCBNL is higher than others. The liquidity position of EBL it is slightly better than SBI. 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 off-balance sheet activities. But in average other two banks are working equally in this regard. Risk and profitability analysis shows there is significant relationship between deposit, investment and loan & advances of all the banks. There is no significance difference between deposit and loan and advances and between deposit and investment of 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.

### **5.3 Recommendations**

On the basis of 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 SBI, EBL 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 as a demand position of loan and advances as well as savings, investment situations, central banks' directives, the lending policies etc. As SBI has maintained the ratio of cash and bank balance to total deposit lower than that of EBL and SCBNL, it is recommended to increased cash and bank balance to meet current obligations and loan demand.
- ) Commercial banks are the profit motive banks; they cannot keep their eyes closed from profit. They should be careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its customers. SBI return on loan and advances is lower than EBL and SCBNL, so it is strongly recommended to utilize its risky assets and shareholders' fund to gain highest profit margin.
- ) Though 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 EBL and SBI 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 yield high return in terms of commission, discount, fees etc. So, these are very important to the commercial banks. In case of SBI have been found failure in utilizing the modern fee-based off balance sheet activities to the maximum possible extent in comparison to the other banks. So, SBI is recommended to enhance off-balance sheet transactions in the day to come.

- J Portfolio condition of all 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 should be grabbed 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.
- J 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.
- J 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 loanable funds to existing or potential customers.
- J 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.
- J 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 EBL and SBI 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.
- J 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.

## BIBLIOGRAPHY

### Books.

- Bhalla, V.K.**( 1998) "*Investment Management, Security Analysis and Portfolio Management*", New Delhi: Prentice Hall of India Pvt. Ltd.,
- Board of Editors, University, ICFAI:** (2003) "*Advance Portfolio Management*", 52, Nagarjuna Hills, Hyderabad-500 082; ICFAI University Press,
- Chandra, Prasanna:** (1994) "*Financial Management Theory and Practice*", New Delhi: S.Chand & Company.
- Cheney, John M. and Moses, Edward A.**( 1995.) "*Fundamentals of Investment*". St. Paul: West Publishing Company.
- Dhal, Bhuvan and Dhal Sarita,** (2002) "*Hand book to Banking*", Second edition.
- Fischer, Donald E. and Jordan** (2000) "*Security Analysis and Portfolio Management*". New Delhi: Prentice Hall of India Pvt. Ltd.,
- Francis, Jack Clark:** (1986.) "*Investment Analysis and Management*", McGraw: Hill Publication,
- Gitman J. Lawrence:** (1985 ) "*Principles of Managerial Finance*". New York: Wright State University.
- Pandey, I.M.** (1995) "*Financial Management*", New Delhi: Vikas Publishing House Pvt. Ltd.
- S. Chand & Company, Bhalla, V.K.** (2002) "*Portfolio Analysis & Management*", New Delhi; S.Chand & Company.
- Sharpe, William F. Alexander and Bailey:** "*Investment*", New Delhi: Prentice Hall of India Private Ltd., 2001
- Shrestha, Dr. Sunity and Silwal, Durba Prashad** (2000) "*Statistical Methods in Managemtn*", Kathmandu: Taleju Prakashan.
- University ICFAI:** (2003) "*Quantitative Methods*". Nagarjuna Hills, Hyderabad-500 082: IFCAI University Press.
- University, ICFAI:** (2003) "*Financial Management*", 52, Nagarjuna Hills, Hyderabad-500 082: IFCAI University Press,
- Van Horne, James C.** (1998) "*Financial Management and Policy*". New Delhi: Prentice Hall of India Pvt. Ltd.,

**Wolff, Howard K. and Panta, P.R:** (1999) “*A Handbook for Social Science Research and Thesis Writing*”, Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

### **Journals and Article**

**Evans, John L.** “*An Analysis of Portfolio maintenance Strategies*” Journal of finance; XXV June 1970 PP. 561-568.

**Gaumnitz, Jack E.** “*Appraising Performance of Investment Portfolios*” The Journal of finance; XXV, June 1970. PP. 555-560.

**ICFAI University Press** “*Charter Financial Analyst*” Finance Magazines; IX, July 2004 PP 17-22, 56-83.

**ICFAI University Press** “*Financial Risk Management*” Journal of Finance; February 2004 XPP 32-37.

**ICFAI University Press** “*Portfolio Organizer*” Finance Magazines; February 2004 PP 36-23, 76-85, May 2004 PP 13-21.

**ICFAI University Press**, “*Applied Finance*” Journal of Finance; April 2004 XI PP 23-27

**Lintner, J. (1965).** “*The valuation of risk assets and the selection of risky investments in stock portfolios and capital budgets*” Review of Economics and Statistics, 47: 13-37

**Markowitz, Harry M.** “*Portfolio Selection*”, Journal of Finance, 1952, pp 77-91

**Markowitz, Harry M:** “*Portfolio Selection*”, Journal of Finance, 7 (1) 77-91, 1952

**Markowitz, Harry M:** “*The early history of portfolio theory: 1600-1960*” Financial Analysts Journal, 55 (4), 5-16, 1999

**Sharpe, William F. (1964):** Capital asset prices: “A theory of market equilibrium under conditions of risk” Journal of Finance, 19 (3), 425-442

## THESIS

**Acharya, Ganendra** (1997) “*A comparative study of the financial performance of joint venture banks in Nepal especially on Nepal Arab bank ltd and Nepal Indosuez bank ltd*” an unpublished Master level thesis, kthmandu: Shanker Dev Campus, T.U.

**Adhikari, Dev Raj**, (1993) “*Evaluating the financial performance of Nepal bank limited*”, an unpublished Master level thesis, Kathmandu: Public youth Campus, T.U.

**Basnet, Jadesh**, (2000) “*Portfolio Management of Joint Venture Bank’s in Nepal*”, an unpublished Master level thesis, Kathmandu: Centert department of Management T.U.

**Dhakal, Deepak**, (2004) “*Financial performance and analysis of NABIL and NBBL,*” an unpublished Master level thesis, Kathmandu: Centert department of Management T.U.

**Joshi** (2010) “*Investment Policy of Commercial Banks in Nepal: A Compretative Study of Everest Bank Limited, Nabil Bank Limited and Bank of Kathmandu Limited*” an unpublished Master level thesis, Kathmandu: Center Department of Management, T.U.

**Pant** (2009) “*A Study of Commercial Banks Depositand Its Utilizations*” an unpublished Master level thesis Kathmandu: Center Department of Management, T.U.

**Pokherel** (2010) “*The Investment Pattern and Policy of Rastrya Banijya Bank*” an unpublished Master level thesis, Kathmandu: Public Youth Campus, T.U.

**Shakya** (2008) “*A Comprative Study on Investment Policy of Nepal Banglades Banks Limited and other Joint Venture Banks*” an unpublished Master level thesis, Kathmandu: Nepal Commerce campus T.U.

**Shakya** (2007) “*Financial Analysis of Joint Venture Banks in Nepal With Refrence NABIL & NGL*” an unpublished Master level thesis, Kathmandu: Nepal Commerce campus T.U.

**Upreti (2006)** “*A Study of the Joint Investment and Loan Pattern of Nepalese Commercial Banks*” an unpublished Master level thesis, Kathmandu: Center Department of Management, T.U.

**WEB SITES:**

- [www.everestbankltd.com](http://www.everestbankltd.com)
- [www.standardchartered.com/np/](http://www.standardchartered.com/np/)
- [www.bokltd.com](http://www.bokltd.com)
- [www.nabil.com.np](http://www.nabil.com.np)
- [www.nabilbankltd.com](http://www.nabilbankltd.com)
- [www.nepalstock.com.np](http://www.nepalstock.com.np)
- [www.sebonep.com](http://www.sebonep.com)
- [www.urb.org.np](http://www.urb.org.np)

**OTHERS:**

Annual Report, Nepal SBI Bank Ltd., FY 2002 to 2009

Annual Report, Everest Bank Ltd., FY 2002 to 2009

Annual Report, Standard Chartered Bank Nepal Ltd, FY 2002 to 2009

## **Interview Questions**

1. What factors you considered while making investment decisions?
2. Are you maintaining the target deposit as per NRB rules?
3. Are you using your deposits properly in profitable sectors?
4. The gapping between deposit and credit is increasing rather than decreasing, why?
5. Major portion of deposit are invested in loans and advances. What is main reason?
6. What are the margin rates you keep while placing the collaterals for credit?
7. What are the major problem Nepalese commercial banks are facing while investing in loans and advances?
8. What kind of measures Nepalese government is taking against this problem?
9. Do you think the commercial banks' management is also responsible for this problem?

## Sources and Uses of Fund of Commercial Banks

S.N.	Purpose	Mid July						Mid March
		2004	2005	2006	2007	2008	2009	2010
<b>1</b>	<b>CAPITAL FUND</b>	<b>4955.7</b>	<b>6077.1</b>	<b>6729.2</b>	<b>8230.2</b>	<b>10202.5</b>	<b>11814.6</b>	<b>12229.3</b>
	a. Paid-up Capital	2965.9	3767	4067.4	5504.1	6431	7726	7953.8
	b. Statutory Reserves	1272	1593.6	1976.7	1787.1	2540	2820	3011.9
	c. Other Reserves	717.8	716.5	685.2	939	970.6	1192.9	1200.7
	d. Retained Earning					260.9	75.7	62.9
<b>2</b>	<b>DEPOSITS</b>	<b>102598</b>	<b>127201.8</b>	<b>154943</b>	<b>181767</b>	<b>185145</b>	<b>203879</b>	<b>215136.6</b>
	a. Current	16310.2	17709.8	20319.5	25100.7	24327	28862.5	27386.3
	b. Savings	36885.3	50154.1	65703.6	80988.4	83855.6	97238.9	105780.9
	c. Fixed	45593.8	54846.7	62204.2	65322.3	64171.4	63287.6	64657.6
	d. Call Deposits	1766.9	2165.9	3715.8	7691.8	10531.9	12027.9	14557.9
	e. Others	2042	2325.3	2999.9	2663.8	2258.8	2462.4	2753.9
<b>3</b>	<b>BORROWINGS</b>	<b>887</b>	<b>1179.1</b>	<b>3346.6</b>	<b>2308.7</b>	<b>2349.5</b>	<b>3170.4</b>	<b>4324.2</b>
	a. NRB	381.4	429.6	428.1	411.8	1167.7	1437	974.1
	b. Inter Bank	505.6	749.5	2918.5	1896.9	953.4	1599.2	1288.8
	c. Foreign Bank	0	0	0	0	228.5	134.2	2061.3
	d. Financial Ins.							
<b>4</b>	<b>OTHERS</b>	<b>36987.1</b>	<b>38000.2</b>	<b>44452.6</b>	<b>59221.3</b>	<b>77221.2</b>	<b>86697.4</b>	<b>87343.7</b>
	<b>SOURCES OF FUND</b>	<b>145428</b>	<b>172458.2</b>	<b>209471.5</b>	<b>251527</b>	<b>274918</b>	<b>305562</b>	<b>319033.8</b>

S.N.	Purpose	Mid July						Mid March
		2004	2005	2006	2007	2008	2009	2010
<b>1</b>	<b>LIQUID FUNDS</b>	<b>33184.1</b>	<b>39093.1</b>	<b>48240</b>	<b>55583.3</b>	<b>49937.2</b>	<b>38163.6</b>	<b>30762.8</b>
	a. Cash in hand	2889.6	3310.4	3507	4116.9	4881.1	4735.9	3710.4
	b. FC in Hannd	750.6	634.5	632.1	658.2	613.8	704.5	567.1
	c. Bal. with NRB	14103.2	13912.7	16945.1	21440.9	23170.3	16867.6	12331.5
	d. Bal. with Dom. Bank	409	402.1	676.9	796.1	928.2	683.7	807.3
	e. Bal. with other Financial Ins					0	0	-1.1
	f. Bal. held abroad	9179.7	9451.7	14613.9	14993.9	7016.7	3783.1	2053.4
	g. Call Money	5852	11381.7	11864.9	13577.3	13327.3	11388.8	11294.2
<b>2</b>	<b>INVESTMENTS</b>	<b>10857.5</b>	<b>14252.4</b>	<b>17967.3</b>	<b>25446.5</b>	<b>34209.8</b>	<b>45386.3</b>	<b>53682.4</b>
	a. Govt. Securities	10591.7	13222	17608.8	25100.9	28573.8	39045.5	46265.6
	b.Share, Deb. & Other Inv	265.8	1030.4	358.5	345.6	5636	6340.8	7416.8
	c. NRB Bond							
<b>3</b>	<b>LOANS &amp; ADVANCES</b>	<b>68618</b>	<b>81758.8</b>	<b>96324.9</b>	<b>109121</b>	<b>113175</b>	<b>124522</b>	<b>133437.4</b>
	a. Govt. Entp.	1214	1749.4	2114.3	2909.6	2651.1	2867.7	2787.7
	i. Financial	397	490.2	695	1209.1	991.2	965.1	1139.4
	ii. Non-Finan.	817	1259.2	1419.3	1700.5	1659.9	1902.6	1648.3
	b. Pvt. Sector	64989	77501.1	92241.8	104209	109043	120343	129620.8
	c. For. Bills P & D.	2266	2348.2	1820.4	1887.2	1322.2	1143.8	969.2
	d. Foreign A.B.C.	149	160.1	148.4	115	158	167.5	59.7
<b>4</b>	<b>INTEREST ACCRUED</b>	<b>10618.6</b>	<b>12932.7</b>	<b>16125.8</b>	<b>19888.5</b>	<b>23742.8</b>	<b>27722.2</b>	<b>32805.3</b>
	a. Govt. Entp.	221.5	299.4	372	334.3	308.2	297.8	265.6
	b. Private Sector	10397.1	12633.3	15753.8	19554.2	23434.6	27424.4	32539.7
<b>5</b>	<b>OTHERS</b>	<b>22149.8</b>	<b>24421.2</b>	<b>30813.5</b>	<b>41487.7</b>	<b>53853.6</b>	<b>69767.2</b>	<b>68345.9</b>
	<b>USES OF FUNDS</b>	<b>145428</b>	<b>172458.2</b>	<b>209471.5</b>	<b>251527</b>	<b>274918</b>	<b>305562</b>	<b>319033.8</b>

## Sources and Uses of Funds Of Nepal SBI Bank Limited

S.N.	Purpose	Mid July						Mid March
		2004	2005	2006	2007	2008	2009	2010
<b>1</b>	<b>CAPITAL FUND</b>	<b>139.3</b>	<b>222.6</b>	<b>208.8</b>	<b>243.5</b>	<b>541.5</b>	<b>582.9</b>	<b>592.3</b>
	a. Paid-up Capital	119.9	119.9	119.9	143.9	424.9	425.2	425.2
	b. Statutory Reserves	18.1	29.9	63.2	73.2	75.7	83.9	136.2
	c. Other Reserves	1.3	72.8	25.7	26.4	28.7	32.9	27.5
	d. Retained Earning					12.2	40.9	3.4
	Reserves	19.4	102.7	88.9	99.6	116.6	157.7	167.1
<b>2</b>	<b>DEPOSITS</b>	<b>3749.1</b>	<b>4362.2</b>	<b>4543.2</b>	<b>6618.4</b>	<b>5572.2</b>	<b>6522.8</b>	<b>5876.8</b>
	a. Current	761.7	1404.2	951	2359.9	1086.7	1300	827.8
	b. Savings	527.2	786.7	1094.9	1259.5	1274.7	1820.7	1808.3
	c. Fixed	2383.6	2100.2	2420.3	2929.4	3132.7	3337.6	3170.9
	d. Call Deposits	0	0	0	0	26.3	0	0
	e. Others	76.6	71.1	77	69.6	51.9	64.5	69.8
<b>3</b>	<b>BORROWINGS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>264.2</b>	<b>65.8</b>	<b>0</b>
	a. NRB	0	0	0	0	264.2	65.8	0
	b. Inter Bank	0	0	0	0	0	0	0
	c. Foreign Bank	0	0	0	0	0	0	0
	d. Financial Ins.							
<b>4</b>	<b>OTHERS</b>	<b>267.7</b>	<b>336.8</b>	<b>439</b>	<b>538.5</b>	<b>574.3</b>	<b>829.1</b>	<b>932.1</b>
	<b>SOURCES OF FUND</b>	<b>4156.1</b>	<b>4921.6</b>	<b>5191</b>	<b>7400.4</b>	<b>6952.2</b>	<b>8000.6</b>	<b>7401.2</b>

S.N.	Purpose	Mid July						Mid March
		2004	2005	2006	2007	2008	2009	2010
<b>1</b>	<b>LIQUID FUNDS</b>	<b>761.5</b>	<b>1357.8</b>	<b>1010</b>	<b>2348.2</b>	<b>1403.2</b>	<b>1331.6</b>	<b>462.3</b>
	a. Cash in hand	40.9	106.6	123	133.2	147.8	243.1	183.3
	b. FC in Hamnd	15.5	7.8	15.6	15.3	18.8	26.5	21.5
	c. Bal. with NRB	572.3	689.9	364.3	294.2	1177.5	892.3	371.2
	d. Bal. with Dom. Bank	3.3	0.6	1	4.7	12.9	12.2	9.4
	e. Bal. with Other Financial Ins.					0	0	0
	f. Bal. held abroad	79.5	532.9	386.2	1510.8	46.2	157.5	-123.1
	g. Call Money	50	20	120	390	0	0	0
<b>2</b>	<b>INVESTMENTS</b>	<b>681.6</b>	<b>202.6</b>	<b>201.8</b>	<b>373.6</b>	<b>521.1</b>	<b>1207.3</b>	<b>1146.5</b>
	a. Govt. Securities	678.6	194	192.9	364.7	503.2	1189.4	1128.6
	b. Share, Deben & Other Inv.	3	8.6	8.9	8.9	17.9	17.9	17.9
	c. NRB Bond	0	0	0	0	0	0	0
<b>3</b>	<b>LOANS &amp; ADVANCES</b>	<b>2414.9</b>	<b>2930.4</b>	<b>3560.1</b>	<b>4176.3</b>	<b>4593.9</b>	<b>4766.1</b>	<b>4964.5</b>
	a. Govt. Entp.	74.3	88.3	88.3	88.3	87.4	50	50.4
	i. Financial	0	0	0	0	0	0	0
	ii. Non-Finan.	74.3	88.3	88.3	88.3	87.4	50	50.4
	b. Pvt. Sector	2297.3	2801.9	3428.8	4002.7	4441.2	4711.1	4909.1
	c. For. Bills P & D.	43.3	40.2	43	85.3	65.3	5	5
	d. Foreign A.B.C.	0	0	0	0	0	0	0
<b>4</b>	<b>INTEREST ACCRUED</b>	<b>132</b>	<b>147.8</b>	<b>172.8</b>	<b>164.6</b>	<b>198.5</b>	<b>389.7</b>	<b>399.6</b>
	a. Govt. Entp.	0	0	0	0	2.3	0.5	0
	b. Private Sector	132	147.8	172.8	164.6	196.2	389.2	399.6
<b>5</b>	<b>OTHERS</b>	<b>166.1</b>	<b>283</b>	<b>246.3</b>	<b>337.7</b>	<b>235.5</b>	<b>305.9</b>	<b>428.3</b>
	<b>USES OF FUNDS</b>	<b>4156.1</b>	<b>4921.6</b>	<b>5191</b>	<b>7400.4</b>	<b>6952.1</b>	<b>8000.6</b>	<b>7401.2</b>

**Sources and Uses of Funds of Everest Bank Limited**

S.N.	Purpose	Mid July						Mid March
		2004	2005	2006	2007	2008	2009	2010
<b>1</b>	<b>CAPITAL FUND</b>	<b>118.6</b>	<b>128.3</b>	<b>127.6</b>	<b>249.4</b>	<b>497.8</b>	<b>587.1</b>	<b>612.9</b>
	a. Paid-up Capital	117.6	118.4	119.2	197	399.3	455	461.4
	b. Statutory Reserves	0	0.1	5.1	13.4	27.3	44.9	64.5
	c. Other Reserves	1	9.8	3.2	39	8.7	14.3	46.1
	d. Retained Earning					62.5	72.9	40.9
<b>2</b>	<b>DEPOSITS</b>	<b>1124.9</b>	<b>1948.9</b>	<b>3057.4</b>	<b>4574.5</b>	<b>5461.1</b>	<b>6694.9</b>	<b>7430.8</b>
	a. Current	127.6	206.1	274.4	399.7	489.6	562.4	564.8
	b. Savings	217.4	449.1	891.7	1384.1	1733.3	2758	3184.7
	c. Fixed	721.8	1180.3	1592.7	2470.2	2694.6	2803.4	2994.7
	d. Call Deposits	17.3	47.9	185.4	225.6	439.4	428	535
	e. Others	40.8	65.5	113.2	94.9	104.2	143.1	151.6
<b>3</b>	<b>BORROWINGS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>80</b>	<b>310.3</b>	<b>83.2</b>	<b>504.2</b>
	a. NRB	0	0	0	0	81.8	0	0
	b. Inter Bank	0	0	0	80	0	0	0
	c. Foreign Bank	0	0	0	0	228.5	83.2	504.2
	d. Financial Ins.					0	0	0
<b>4</b>	<b>OTHER LIABILITIES</b>	<b>104.6</b>	<b>210.4</b>	<b>226.7</b>	<b>336.3</b>	<b>505</b>	<b>895</b>	<b>894.1</b>
	<b>SOURCES OF FUND</b>	<b>1348.1</b>	<b>2287.6</b>	<b>3411.7</b>	<b>5240.2</b>	<b>6774.2</b>	<b>8260.2</b>	<b>9442</b>

S.N.	Purpose	Mid July						Mid March
		2004	2005	2006	2007	2008	2009	2010
<b>1</b>	<b>LIQUID FUNDS</b>	<b>187.3</b>	<b>460.7</b>	<b>278.6</b>	<b>824.1</b>	<b>809.2</b>	<b>1156.1</b>	<b>720.1</b>
	a. Cash in hand	21.2	62.2	41.9	92.9	146.3	109.8	132.4
	b. FC in Hannd	8.2	4.6	8.8	15.1	23.6	26.8	11.8
	c. Bal. with NRB	121.5	168.1	130.5	385.6	357.7	724.8	433.3
	d. Bal. with Dom. Bank	6.7	0	4.3	2.3	3.1	5.9	3.4
	e. Bal. with Other Financial Ins.					0	0	0
	f. Bal. held abroad	29.7	225.8	93.1	328.2	141.5	251.3	139.2
	g. Call Money	0	0	0	0	137	37.5	0
<b>2</b>	<b>INVESTMENTS</b>	<b>111.1</b>	<b>187.4</b>	<b>260.1</b>	<b>826.7</b>	<b>1628.6</b>	<b>1616.5</b>	<b>2427.8</b>
	a. Govt. Securities	111.1	184.9	257.6	823	1538.9	1559.4	2410.7
	b. Share, Deben & Other Inv.	0	2.5	2.5	3.7	89.7	17.1	17.1
	c. NRB Bond	0	0	0	0	0	0	0
<b>3</b>	<b>LOANS &amp; ADVANCES</b>	<b>867.6</b>	<b>1354.9</b>	<b>2270.2</b>	<b>3006.6</b>	<b>3982.7</b>	<b>5049.6</b>	<b>5800</b>
	a. Govt. Entp.	0	0	0	0	0	60	70
	i. Financial	0	0	0	0	0	60	70
	ii. Non-Finan.	0	0	0	0	0	0	0
	b. Pvt. Sector	801.6	1311.9	2230.8	2963.7	3969.6	4970.9	5700.3
	c. For. Bills P & D.	66	43	39.4	42.9	13.1	18.7	29.7
	d. Foreign A.B.C.	0	0	0	0	0	0	0
<b>4</b>	<b>INTEREST ACCRUED</b>	<b>31.8</b>	<b>46.2</b>	<b>76.2</b>	<b>94.3</b>	<b>99.8</b>	<b>147.6</b>	<b>159.3</b>
	a. Govt. Entp.	0	0	0	0	0	0.9	8.3
	b. Private Sector	31.8	46.2	76.2	94.3	99.8	146.7	151
<b>5</b>	<b>OTHERS</b>	<b>150.3</b>	<b>238.4</b>	<b>526.6</b>	<b>488.5</b>	<b>253.9</b>	<b>290.4</b>	<b>334.8</b>
	<b>USES OF FUNDS</b>	<b>1348.1</b>	<b>2287.6</b>	<b>3411.7</b>	<b>5240.2</b>	<b>6774.2</b>	<b>8260.2</b>	<b>9442</b>

## Sources and Uses of Funds Of Standard Chartered Bank Nepal Limited

S.N.	Purpose	Mid July						Mid March
		2004	2005	2006	2007	2008	2009	2010
<b>1</b>	<b>CAPITAL FUND</b>	<b>494.2</b>	<b>756.0</b>	<b>834.7</b>	<b>920.3</b>	<b>1012.3</b>	<b>1119.0</b>	<b>1152.9</b>
	a. Paid-up Capital	150.0	339.5	339.5	339.5	339.5	339.5	339.5
	b. Statutory Reserves	300.0	358.5	430.4	508.9	595.0	679.1	679.1
	c. Other Reserves	44.2	58.0	64.8	71.9	77.8	100.4	134.3
	d. Retained Earning					0.0	0.0	0.0
<b>2</b>	<b>DEPOSITS</b>	<b>8535.2</b>	<b>11160.8</b>	<b>12566.4</b>	<b>15430.1</b>	<b>15835.7</b>	<b>18755.5</b>	<b>18326.6</b>
	a. Current	1969.6	2334.3	2417.1	3279.4	3808.4	5768.6	4280.3
	b. Savings	4079.5	5467.6	6632.7	8404.6	9441.8	10633.1	11972.0
	c. Fixed	2148.9	3104.7	2926.2	3471.7	2264.9	1948.5	1468.2
	d. Call Deposits	0.0	0.0	0.0	0.0	101.1	185.2	349.7
	e. Others	337.2	254.2	590.4	274.4	219.5	220.1	256.4
<b>3</b>	<b>BORROWINGS</b>	<b>278.5</b>	<b>99.5</b>	<b>2380.8</b>	<b>1590.0</b>	<b>671.5</b>	<b>79.1</b>	<b>1575.9</b>
	a. NRB	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	b. Inter Bank	278.5	99.5	2380.8	1590.0	671.5	28.1	18.8
	c. Foreign Bank	0.0	0.0	0.0	0.0	0.0	51.0	1557.1
	d. Financial Ins.							
<b>4</b>	<b>OTHER LIABILITIES</b>	<b>1980.1</b>	<b>2364.8</b>	<b>2574.1</b>	<b>3477.7</b>	<b>2156.1</b>	<b>2355.5</b>	<b>2766.6</b>
	<b>SOURCES OF FUND</b>	<b>11288.0</b>	<b>14381.1</b>	<b>18356.0</b>	<b>21418.1</b>	<b>19675.6</b>	<b>22309.1</b>	<b>23822.0</b>

S.N.	Purpose	Mid July						Mid March
		2004	2005	2006	2007	2008	2009	2010
<b>1</b>	<b>LIQUID FUNDS</b>	<b>3929.3</b>	<b>5239.5</b>	<b>8063.4</b>	<b>8086.5</b>	<b>2890.6</b>	<b>3170.0</b>	<b>3274.8</b>
	a. Cash in hand	109.2	125.5	109.4	169.9	224.0	153.2	167.4
	b. FC in Hamnd	18.8	10.0	16.8	17.7	33.8	45.5	41.5
	c. Bal. with NRB	282.4	486.4	649.9	659.5	369.8	1141.1	1755.8
	d. Bal. with Dom. Bank	7.6	-7.3	-4.0	1.4	16.7	112.3	8.6
	e. Bal. with Other Financial Ins.					0.0	0.0	0.0
	f. Bal. held abroad	3511.3	4624.9	7291.3	7238.0	184.3	60.0	223.7
	g. Call Money	0.0	0.0	0.0	0.0	2062.0	1657.9	1077.8
<b>2</b>	<b>INVESTMENTS</b>	<b>1047.6</b>	<b>2689.9</b>	<b>3349.9</b>	<b>4822.2</b>	<b>9276.0</b>	<b>10357.7</b>	<b>12868.2</b>
	a. Govt. Securities	1041.6	2678.7	3338.7	4811.0	5784.8	6722.8	9073.7
	b. Share, Deben & Other Inv.	6.0	11.2	11.2	11.2	3491.2	3634.9	3794.5
	c. NRB Bond	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>3</b>	<b>LOANS &amp; ADVANCES</b>	<b>4170.6</b>	<b>4693.1</b>	<b>4957.5</b>	<b>5924.1</b>	<b>5787.9</b>	<b>6080.7</b>	<b>6121.0</b>
	a. Govt. Entp.	171.7	150.6	365.5	359.9	286.2	51.5	252.0
	i. Financial	97.5	150.6	169.3	239.7	90.0	6.2	90.0
	ii. Non-Finan.	74.2	0.0	196.2	120.2	196.2	45.3	162.0
	b. Pvt. Sector	3763.3	4422.8	4394.3	5478.8	5389.4	5977.0	5833.6
	c. For. Bills P & D.	235.6	119.7	197.7	85.4	112.3	52.2	35.4
	d. Foreign A.B.C.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>4</b>	<b>INTEREST ACCRUED</b>	<b>80.1</b>	<b>87.4</b>	<b>137.4</b>	<b>186.6</b>	<b>216.0</b>	<b>167.6</b>	<b>313.5</b>
	a. Govt. Entp.	0.0	0.0	0.0	0.0	0.0	2.5	0.0
	b. Private Sector	80.1	87.4	137.4	186.6	216.0	165.1	313.5
<b>5</b>	<b>OTHERS</b>	<b>2060.4</b>	<b>1671.2</b>	<b>1847.8</b>	<b>2398.7</b>	<b>1505.1</b>	<b>2533.1</b>	<b>1244.5</b>
	<b>USES OF FUNDS</b>	<b>11288.0</b>	<b>14381.1</b>	<b>18356.0</b>	<b>21418.1</b>	<b>19675.6</b>	<b>22309.1</b>	<b>23822.0</b>

**Annex- vi**

**Correlation Analysis Between Deposits And Investment Of SBI**

Year	Deposit (X)	Investment (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2005/06	7232.1	1889.4	52303270.41	3569832.36	13664329.74
2006/07	8645.1	2607.7	74737754.01	6800099.29	22543827.27
2007/08	10852.7	3699.9	117781097.3	13689260.01	40153904.73
2008/09	11445.2	2377.5	130992603	5652506.25	27210963
2009/010	13725.4	5524.4	188386605.2	30518995.36	75824599.76
	51900.5	16098.9	564201329.9	60230693.27	179397624.5

$$\text{Correlation} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 179397624.5 - 51900.5 \times 16098.9}{\sqrt{5 \times 4181624204 - (51900.5)^2} \sqrt{5 \times 60230693.27 - (16098.9)^2}}$$

= 0.840419005

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

= 0.0886

6 P.E = 0.5316

### Correlation Analysis Between Deposits And Loan And Advances Of SBI

Year	Deposit (X)	Loan And Advances (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2005/06	7232.1	5490.9	52303270.41	30149982.81	39710737.89
2006/07	8645.1	6619.1	74737754.01	43812484.81	57222781.41
2007/08	10852.7	8059.6	117781097.3	64957152.16	87468420.92
2008/09	11445.2	9846.7	130992603	96957500.89	112697450.8
2009/010	13725.4	12574.9	188386605.2	158128110	172595532.5
	51900.5	42591.2	564201329.9	394005230.7	469694923.5

Correlation = 0.978836001

Probable Error (P.E) = 0.0126

5 P.E = 0.0759

### Correlation Analysis Between Deposits And Investment Of EBL

Year	Deposit (X)	Investment(Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2005/06	8064	2466.4	65028096	6083128.96	19889049.6
2006/07	10097.8	2100.3	101965564.8	4411260.09	21208409.34
2007/08	13802.5	3548.6	190509006.3	12592561.96	48979551.5
2008/09	19097.7	4704.6	364722145.3	22133261.16	89847039.42
2009/010	23976.3	4906.5	574862961.7	24073742.25	117639716
	75038.3	17726.4	1297087774	69293954.42	297563765.8

Correlation = 0.949704337

Probable Error (P.E) = 0.04386

6 P.E = 0.2631

Correlation Analysis between Deposits and Loan and Advances of EBL

Year	Deposit (X)	Loan and Advances (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2005/06	8064	6116.6	65028096	37412795.56	49324262.4
2006/07	10097.8	7914.4	101965564.8	62637727.36	79918028.32
2007/08	13802.5	10124.2	190509006.3	102499425.6	139739270.5
2008/09	19097.7	14059.2	364722145.3	197661104.6	268498383.8
2009/010	23976.3	18814.3	574862961.7	353977884.5	451097301.1
	75038.3	57028.7	1297087774	754188937.7	988577246.2

Correlation = 0.996602554

Probable Error (P.E) = 0.00205

6 P.E = 0.01229

Correlation Analysis between Deposits and Investment of SCBNL

Year	Deposit (X)	Investment(Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2005/06	21161.4	11360.3	447804850	129056416.1	240399852.4
2006/07	19344	9704.1	374190336	94169556.81	187716110.4
2007/08	23050.5	12560.6	531325550.3	157768672.4	289528110.3
2008/09	24640.3	13564	607144384.1	183982096	334221029.2
2009/010	29743.9	13902.8	884699587.2	193287847.8	413523492.9
	117940.1	61091.8	2845164708	758264589.1	1465388595

Correlation =0.891000867

Probable Error (P.E) = 0.06217

7 P.E = 0.3731

Correlation Analysis between Deposits and Loan and Advances of SCBNL

Year	Deposit (X)	Loan and adv (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2005/06	21161.4	6662	447804850	44382244	140977246.8
2006/07	19344	8213.5	374190336	67461582.25	158881944
2007/08	23050.5	8905.1	531325550.3	79300806.01	205267007.6
2008/09	24640.3	10538.1	607144384.1	111051551.6	259661945.4
2009/010	29743.9	13355	884699587.2	178356025	397229784.5
	117940.1	47673.7	2845164708	480552208.9	1162017928

Correlation = 0.92497855

Probable Error (P.E) = 0.04355

6 P.E = 0.2613