# Deposit and investment policy & practices of commercial banks in Nepal

**(A comparative study of Standard Chartered Bank Nepal Limited and Nabil Bank Limited)**

**Submitted by:**
**Pradip Khanal**
**Balkumari College**
**TU Regd. No: 7-1-241-233-2000**
**Roll No. 96 (062-064)**

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# RECOMMENDATION

This is to certify that the thesis

Submitted by

**Pradip Khanal**

**Entitled**

**DEPOSIT AND INVESTMENT POLICY & PRACTICES OF COMMERCIAL BANKS IN NEPAL**

**(A Comparative Study of Standard Chartered Bank Nepal Limited & Nabil Bank Limited)**

has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

.....……………….................…

Mr. Baburam Panthi
Thesis Advisor /
Chairperson, Research Committee

…..........……………

Mr. Bharat Khanal
Programme Incharge

…………….....…........…

Prof. Chiranjibi Shrestha
Principal

Date:

# VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the

Thesis presented by

**Pradip Khanal**

**Entitled**

**DEPOSIT AND INVESTMENT POLICY & PRACTICES OF COMMERCIAL BANKS IN NEPAL**

**(A Comparative Study of Standard Chartered Bank Nepal Limited & Nabil Bank Limited)**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for

**Master Degree in Business Studies (MBS)**

## VIVA-VOCE COMMITTEE

Chairperson, Research Committee: ……………………….

Member (Thesis Advisor): ……………………….

Member (External Expert): ……………………….

Date:

# DECLARATION

I hereby declare that the work done in this thesis entitled **"Deposit and Investment Policy & Practices of Commercial Banks in Nepal (A Comparative Study of Standard Charter Bank Nepal Limited & Nabil Bank Limited)"** submitted to Balkumari College, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillments of the requirement of the degree of Master of Business studies (M.B.S.) under the supervision and guidance of Mr. Baburam Panthi, Lecturer of Balkumari College.

March, 2011

**Pradip Khanal**

Researcher

T.U. Reg. No: 7-1-241-233-2000

Balkumari College

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**Pradip Khanal**

**Balkumari College**

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## ABBREVIATIONS

| | |
|---|---|
| A. M. | Arithmetic Mean |
| C. V. | Coefficient of Variation |
| CA | Chartered Accounting |
| CBs | Commercial Banks |
| CRR | Ca sh Reserve Ratio |
| E.g | Example |
| FDI | Foreign Domestic Investment |
| FINGOs | Financial Intermediary |

| | |
|---|---|
| FY | Fiscal Year |
| HBL | Himalayan Bank Limited |
| i.e. | That is |
| INGO | International Non-Government Organization |
| JVBs | Joint Venture Banks |
| Ltd. | Limited |
| M.B.S. | Master of Business Studies |
| NABIL | Nabil Bank Limited |
| NBBL | Nepal Bangladesh Bank Limited |
| NEPSE | Nepal Stock Exchange |
| NGBL | Nepal Grindlays Bank Limited |
| NGO | Non-Government Organization |
| No. | Number |
| NRB | Nepal Rastra Bank |
| S.D. | Standard Deviation |
| SBL | Siddhartha Bank Limited |
| SCBNL | Standard Chartered Bank Nepal Limited |
| SEBON | Securities Board of Nepal |
| TWF | Total Working Fund |
| USA | United Stated of America |

# CHAPTER ONE

# INTRODUCTION

## General Background of the Study

Commercial banks are the suppliers of finance for trade and industry, which plays vital role in the economic and financial life of the country. They help in the formation of capital by investing the savings in productive areas. Rural people of under developed countries like Nepal need various banking facilities to enhance its economy. In most of the countries, the banks are generally concentrated in urban and semi-urban sectors. They neglect rural sector due to heavy risk and low return, which is in fact, the main key to economic development without it other sectors of economy cannot be flourished.

History tells us that it was the merchant who first evolved the system of banking by trading in commodities than money. Reviewing the history we can find that present day banker has three ancestor of particular note. These are merchant, lender, and the goldsmith. Lending and borrowing are almost as old as money itself but modern banking showed its seed in medieval Italy.

“Bank is the establishment for keeping money, valuable etc; safety the money being paid out on the customer’s order.” (by mean of cheque). (Oxford advance learner Dictionary, 83-84)

“A Bank is a business organization that receives and holds deposits of funds from other and makes loans or extends credits and transfer funds by written of deposits.” (Encyclopedia, 1986).

The history of banking development, we can't forget the Bank of Casa de San Giorgio in Genoa, which was established in 1148; Bank of Venice was established in 1157 and the Bank of Genoa was established in 1148. In 1401, the Bank of Barcelona was established in Barcelona. In fact modern bank started to take rapid speed in forming & functioning from 17$^{th}$ century. During this period Bank of Milan, Bank of Florence and Bank of St. George were established in Genoa. In 1609, the Bank of Amsterdam was established in Holland, like wise in 1610, Bank of Hamburg was established in Germany and the Bank of England was established in England (Bhandary, 2005)

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. Banking history of Nepal is about decade. The concept of banking system was introduced in Nepal with the establishment of Nepal bank Ltd. in 1937 A.D. It was established to help government's policy to develop economic and business activities in the country. After realizing the need of another bank, later in 1956, the central bank named as the Nepal Rastra Bank was set up with an objective of supervising, protecting and directing the functions of commercial banking activities and to carry out central banking activities. After realizing the need of another bank, Rastriya Banijya Bank was set up in 1966 A.D. to spread banking services to both rural and urban areas. As the country moved towards economic liberalization in 1980 A.D. foreign banks were invited to operate in Nepal. The financial scenario has changed with the introduction of joint venture Banks in 1984. The number of commercial banks has been increasing. Since then, various financial institutions Like, JVBs, domestic commercial banks, development banks, finance companies, co-operative banks, Credit Guarantee Corporation, Employee Provident Fund, National Insurance Corporation, and Nepal Stock Exchange have come into existence to cater the financial needs of the country thereby assisting financial development of the country.

After restoration of democracy in the country in 1990, government highlighted the agenda of economic liberalization. Liberalization policies were announced and emphasized to invite FDI in banking sector of Nepal. Therefore the development of commercial banks in Nepal is categorized in three phases on the basis of financial institutions policies adopted by the country from time to time. They are:

Commercial banks prior to 1980's
Commercial banks of 1980's
Commercial banks of 1990's

There were only two commercial banks prior to 1980's they are Nepal Bank Ltd. and Rastriya Banijya Bank. All the three commercial banks of 1980's were established as JVBs. Similarly six commercial banks of past 1990's were also come into operation as JVBs. Latest six banks were established by the private sector of Nepal. Consequently the names of some banks are also changed. Nepal Arab Bank Ltd. is now known as Nabil Bank Ltd. Similarly Nepal Grindlays Bank Ltd., Nepal Indosuez Bank Ltd. and Nepal Bank of Ceylon Ltd. are now known as Standard Chartered Bank Nepal Ltd., Nepal Investment Bank Ltd., and Nepal Credit and commerce Bank Ltd. respectively. Taking an overview of financial institutions providing banking facility in Nepal, there are 30 commercial banks but in Nepal Rastra Bank website there are only 27 licensed commercial banks.

**Brief Introduction of Selected Commercial Banks**

**Standard Chartered Bank Limited (SCBNL)**

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

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 18 points of representation, 23 ATMs across the country and with more than 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Consumer banking, Wholesale and SME Banking catering to a wide range of customers encompassing individuals, mid-market local corporates, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. 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.

Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's values. The Bank believes in delivering shareholder value in a socially, ethically an environmentally responsible manner. Standard Chartered throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally considered. It supports non-governmental organisations involving charitable community activities The Group launched two major initiatives in 2003 under its 'Believing in Life' campaign- 'Living with HIV/AIDS' and 'Seeing is Believing'.

Nepal Gridlays Bank was established in 1985 as a second foreign joint venture bank under the company Act, 1964, Grindlays Bank PLC is the foreign joint venture partner with 50% equity investment. ANZ Grindlays Bank PLC is managing the bank under joint and technical services agreement signed between ANZ Grindlays Bank PLC and Nepali investors. The main objective of the bank is to collect deposits and provide loans to agriculture, commerce and industries and to provide modern banking to the people.

**Nabil Bank Ltd (NABIL)**

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 40 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Telebanking system.

Nabil Bank ltd, the first foreign joint venture Bank of Nepal, started operations in july1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. It was established with joint investment of United Arab Emirates bank having 50% shares, different financial institutions having 20% share and public having 30% share. It authorized capital is 10 crores, issued capital is 5 crores and paid up capital is 3 crores.

The already established commercial bank, Nepal bank ltd and Rastriya Banijya bank, had certainly added some energy in promoting financial activities to assist grow trade and commerce. However due to inefficiency prevailing in these financial intermediaries, these banks were found insufficient to move parallel with the increasing venture of trade and commerce. Due to wind of globalization, the need of foreign investment to boost the economic activities and basically the need of adding efficiency in Nepalese financial market, the Nepalese authorities severely felt the need of new technologies and investment. These necessities leaded the Nepal Rastra Bank, the central bank of the country and the government to introduce a new regulation, allowing new joint venture bank between foreign and Nepali banks. Nabil Bank ltd commenced its operation on 12$^{th}$ July 1984 as the first joint venture bank in Nepal. Dubai Bank Ltd, Dubai (Later acquired by Emirates Bank international ltd, Dubai) was the first joint partner of Nabil. Currently, NB (international) ltd, Ireland is the foreign partner of the bank.

**Present Capital structure of the bank**

| | |
|---|---|
| N.B. (international) ltd. Ireland | 50% |
| Nepalese Public | 30% |
| Nepal industrial Development corporation | 10% |
| Rastriya Beema sansthan | 9.67% |
| Nepal Stock exchange | 0.33% |

NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started as era of modern banking with customer satisfaction measured as a focal objective while doing business.

Generally, Deposit and Investment policy of a Bank denotes that a bank collects and accepts deposits of amount from the public and organization in different accounts and invests its amount in various sector like: Industry, Trade, Agriculture & so on. Every bank has to adopt deposit and investment policy due to various types of risk factor. Deposit and Investment policy show the different tools, techniques, ideas and paths to a bank for smooth and healthy operation competing market competitors to survive.

The term deposit and investment have gained so much popularity among the people that we see every one talking about it. People want to earn more therefore they sacrifice their present consumption. Thus, investment is the sacrifice of present consumption for future benefit. It is the use of the money for purpose of making more money to gain income or to increase capital or both. It is a process of exchanging income during one period of time for an asset that is expected to produce earnings in future periods. Thus, consumption in current period is foregone in order to obtain a greater return in the future.

The investment brings forth vision of profit, risk, speculation and wealth. It can be financially rewarding and exciting for the knowledgeable investors whereas it may result in disaster for the uninformed. The investor makes choice among the various available investment alternatives on the basis of their objectives and time horizon. They must consider the expected risk and return of portfolio and must also develop appropriate investment strategies. The term investment generally has a higher risk than saving and return can come in the form of income or capital gain or a mixture of both. Until the investors have adequate saving to meet any unforeseen financial emergency, he/she shouldn't invest.

The banking sector as largely responsible for collecting household saving terms of different types of deposit and regulating then in the society by lending in different sector of the economy. The banking sector has now reached to the most remote areas of the country and has experience a good deal in the growth of economy. By industries under intensive banking programmer has enable the banks to share in the economic growth of country.

One of the most important problems in the banking sector is investing its deposit and capital in various forms of earning assets. This is also called portfolio management. Since there are two types of funds for investment i.e. capital and deposit and constitute the major portion for its investment purpose, the investment policy of bank is highly influenced by the nature of funds available for its investment. Therefore the basis of loan portfolio depends on the deposit mix it has. If the funds are of permanent nature, the chances of acquiring profitable assets are high. On the contrary, if the funds are of short term nature or likely to be fluctuated, the banks must also give full attention for its liquidity than its investment. As a result the change of earning profit is always at risk.

Hence, a sound deposit and investment policy of bank is such that collect and accept various funds from public and organization and its funds distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand.

**Focus of the Study**

This study will focus on the deposit and investment policies of commercial bank and analyze whether they are successful in utilizing its available funds or not after the adoption of liberal policy by the government for the growth and development of commercial bank, lots of them are being emerging in the country. During this study period, there are 27 commercial banks operating in the various part of the country. This study mainly focuses on:

1. Deposit and investment scenario of the commercial banks.
2. It shows what commercial banks are doing to mobilize their funds.
3. Return from investment is suitable for them or not.
4. This study evaluates the performance of commercial banks.

As the study is related to deposit and investment policy of commercial banks, its report will be beneficial to them. The suggestions made for this report will help to improve their resources mobilization and return on investment.

**Statement of the Problem**

Economic development in the country is possible only through the establishment and sound operation of commercial bank. Thus various commercial banks have been established in our country for the economic development. Such commercial banks help in capital formation and its proper utilization. But the developing country like Nepal is suffering from such problems. Commercial banks are also not to operate in full fledge. The development of the country is possible only if such commercial banks are able to invest in productive sector.

Commercial banks have not formulated their investment policy in so organized manner. They have limited consideration towards portfolio optimization. They don't have their own clear vision towards investment portfolio.

There are various problems in resources mobilization by commercial banks in Nepal. The major one is poor investment climate due to heavy regulatory procedure. While making the investment, Commercial banks have to think about the various risks. Associated with it like financial risks, business risk etc. If such risks are ignored then there is high level of chance of losing their principal also. Thus unsecured loan and investment may cause liquidation of those institutions.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not practiced in an effective way.

**Objective of the Study**

The objective of the study has been to examine relationship between the amount of total deposit and amount of total investment by the commercial banks.

- To analyze the relationship between deposits and loans & advances.
- To highlight the overall deposit and investment polices of commercial banks.
- To analysis the relationship between deposit and investment policy.
- To analyze the trend & Pattern of deposit utilization and its projection.

## Research Questions

The present study will try to analyze the deposit and investment policies of commercial banks. The study attempts to address the following research questions as follows:

- What are the investments and deposit polices of commercial bank of Nepal?
- Are the performances of Commercial banks in accordance with investment and deposit better?
- Do the banks with sound investment and deposit position to attain their goals?
- What steps should be taken by commercial banks to improve their investment and deposit?
- How far commercial banks have been able to minimize the NPA/NPL?
- What is the correlation between deposit and investment of commercial banks?

## Significance of the study

At present banks play role in the economic development of the country. Nepal bank ltd is the first commercial bank in Nepal which was established in 1994 B.S. along with this, other commercial banks and joint venture banks are playing very important role in the banking area.

Commercial banks are those banks that supply the financial needs of the modern business by various means. They hold deposit of the public and business units. Commercial banks are restricted to invest their funds in the corporate securities and make their funds available through their lending and investing activities to the borrowers, individuals etc. as a matter of facts, commercial banks are the backbone of the financial system of the country.

Commercial bank is the source for the economic development of the country. Hence, banks are those institutions that perform the indispensable task of the intermediating between two individuals and institutions in order to raise funds to deficit spending individuals and institutions. In this context, the role of the banks can't be ignored and under emphasized.

### Limitation of the study

Every study has its own limitation. It is quite possible to conduct the study without limitation. Likewise, this study has also limitations which are as follows:-

- As the study is simple the partial fulfillment of MBS program, the time assigned for it is limited i.e. within the speculative time, the report has to be completed which weakened the adequacy of the study.
- The whole study is based upon the secondary data, so the accuracy of the data is based on the reliability of the sources.
- All the required materials are not given by the bank as they want to keep their records secret.
- The study period covers only period of 6 years from 2004/2005 to 2009/2010.
- The data available in published annual report and into website is assumed to be correct and true.
- Only 2 banks are taken and to compare it with the deposit and investment policy.

This study is confined to evaluate only the deposit and investment polices of commercial banks.

### Organization of the study

The entire study has been categorized into five chapter covers some facts pertaining to the investment polices of commercial banks. The followings are the title of the chapter.

**Chapter I Introduction**

It deals with introduction part. It covers background of the study, focus of the study, statement of the problem, objective of the study, Research question, Significance of the study, Limitation of the study and organization of the study.

**Chapter II Review of literature**

It is devoted to the theoretical framework that bounds the study and briefs the review of relevant literature. It is included the review of previous writing and studies relevant to the problem being explored and within the framework of theory structure.

**Chapter III Research Methodology**

It deals with the research methodology used in the study. It further attempts to explain the research design, research process, nature and resources of data and data analysis technique.

**Chapter IV Presentation and data analysis**

It deals with data presentation and analysis. It includes presentation, analysis and interpretation of data by using various financial and statistical tools.

**Chapter V Summary, Conclusion and recommendation**

It includes major findings summary, conclusion and recommendation of the study. Besides these chapters, Bibliography and appendices will be presented at the end of fifth chapter.

# CHAPTER TWO

# REVIEW OF LITERATURE

The previous chapter has already highlighted upon the growing commercial Banks in the context of Nepal. Now, in this chapter, there has been highlighted on the deposits and investment policy of commercial banks. This chapter comprises of previous research study articles concerned with this study and other studies with a view for supplement and present research and such review adds to the dimension of the study.

Thus, this chapter highlights the literature available related to the present study. This chapter includes review of the following relevant literature to the CBs.

1. Conceptual Review
2. Review of NRB Directives & legal provisions
3. Review of articles & other research works
4. Review of unpublished thesis.
5. Research Gap

## Conceptual Review

### 2.1. 1 Commercial Banks

A bank refers to the organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure. The word 'banks' commonly refers to the commercial Banks where receive and hold deposits of fund form other makes loans or extends credit and transfer fund by written order of depositors.

According to Dr. Mali Ram, "Banking means the accepting for the purpose of lending or investment, the deposits of money from the public, repayable by cheques, drafts, and order or otherwise" (Mali, 1969)

Further R.S Sayers in his book modern banking writers, “Ordinary banking business consist of changing cash for bank deposits and bank deposits for each, transferring bank deposits from one person or corporation to another, giving bank deposits in exchange for bills of exchange, government bonds, the secured or unsecured promises of businessmen to repay etc.” (Sayer’s, 1997. 22)

E. S. kills gave the meaning of bank emphasizing the bank’s function as creation of money, “A banks business is basically to buy and sell credit”.

“Credit instruments are its stock in trade. Also on the basis of its own credit a bank creates money by transferred by credit instrument” (Klse, 1972 )

American Institute of banking defines commercial banks as, “Commercial Bank is a corporation which accepts demand deposits subject of the scope of its other services” (AI of Banking USA, 1972)

The institution laid emphasis on the four functions of commercial bank as “Receiving and handling deposits of money (Deposit function), handling payment of money (payment function), making loans and investment (loan function) and creating money by extension of credit (Money function)”

**Review of Legislation’s Relating to Commercial Banks**

Commercial bank act 2031 was formulated to facilitate the smooth run of commercial banks. All the commercial banks are functioning under this act. This act defines the bank as, “a commercial Bank is one which exchange money, accepts deposits grants loans and performs commercial banking function and which is not a bank meant for a corporation, agriculture, industry or for specific purpose”

Commercial banks are major financial institutions which occupy quite an important place in the framework of every economy because they provide capital for the development for the industry, trade and business and other resources deficits sectors by investing the saving collected as deposits. Besides this, commercial banks render numerous services to their customers in view of facilitating their economic and social life. Commercial banks have changed the economic structure of the world by playing active roles. So commercial banks become the heart of financial system.

The preliminary statement of Nepal bank act 1994 clearly states the need of commercial bank in the country, “In absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the help and therefore with the betterment of the country; this law is hereby promulgated for the establishment of the bank and it’s operation.” (Nepal Bank Act 1994, Nepal)

- **Joint Venture Banks**

Joint venture bank is also commercial Bank, A JVB is the joining of forces between two or more than two enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production or trade).

The entry of the foreign banks was restricted by Nepalese authorities for many years even after the development of the financial sector in Nepal to protect the interest of domestic banks. This restriction was lofted in 1984 feeling the need of modernizing the banking sector of the country. The basic reason behind this is the government’s deliberate policy of allowing foreign JBS to operate in Nepal. Government’s liberalization policy also encourage the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, via computerization and prompt customers services by setting them to the exposure of the JVBs.

When the Government decided to establish banks with the joint venture, two benefits were expected, first, that competition would forces domestic and second, that introduction of new banking procedures, methods and technology would occur. (Madlin C. and Snock H. Jan 31, 1998)

The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercials banks. The main beneficiary of this is the bank clients. The increased competition forces the existing banks to improve their quality and extend services by simplifying procedure and by training, motivating their own staff to respond to the new challenges.

The JVBs are in a better position than local commercial banks in profit making. On an average no foreign banks have suffered loss till now but local banks have owned negative profits.

Despite the increase in number of commercial bank. JVBs are concentrated in urban centers especially in major cities, with all their head quarters in Kathmandu alone accept that of Nepal SBI bank, which is based in Rupandhehi. This trend has resulted in two way effects on the operations of the Government owned commercial banks in Nepal. First the comparatively attractive interest rates and services promptness of these private banks have drawn the public deposit to their side thereby reducing in financial liabilities of the farmer. Second as the result of reduction in financial liabilities of the government operates commercial banks have been forced to shutdown some of their branches of the remote area of the country. Nevertheless, a look at the activities of these joint venture banks provides a fillip into the tremendous aid they provide to the national economy. They have been instrumental in mobilizing capital more effectively and to a longer extend. Especially they have been more helpful in finding the private sector.[i] "Facts about Nepaleses economy 1998" Joint venture Bank in Nepal Society for applied Economic July

**Table No. 2.1**

**List of Joint Venture Commercial Banks**

| Name of Banks | Year | Paid up capital (Rs. In million) | Foreign Share | Joint venture partner bank |
|---|---|---|---|---|
| Nabil Bank Ltd. | 1984 | 491.73 | 50% | National Bank ltd Bangladesh |
| Standard Charter Bank Ltd | 1985 | 339.50 | 50% | Standard charter Bank UK |
| Himalayan Bank Ltd | 1992 | 390.00 | 20% | Habib bank ltd |
| Nepal SBI Bank Ltd | 1993 | 424.98 | 50% | State Bank of India |
| Nepal Bangladesh Ltd | 1994 | 357.25 | 50% | IFIC bank, bangledesh |
| Everest Bank Ltd | 1993 | 399.32 | 20% | Punjab National bank, India |

*Source: NRB*

All these joint venture banks are being essential element for economic development of our nation, as these banks are supporting the development of our economy, the country should encourage such foreign investment to ensure financial soundness, stability and fair competition in banking sector.

) **Role of Joint Venture Banks**

In the present economic scenario, the need and role of the joint venture banks need not be overemphasized. JVBs definitely help to boost the economy through various productive undertakings. Absences of joint venture banks results in idleness of excessive funds hold by the certain group of society and failure of mobilization of such funds by the certain group who are in need of money. So banks work as an intermediary between two groups.

Following can be explained as the major roles of Joint venture banks.

**Capital Formation**

Banks can transfer surplus capital from developed to les developed area where it is scarce and most needed. Canalization of recourses from urban sectors to rural sectors to promote economic development.

**1. Regional Balance**

Promote trade capital formation function of banks is concerned with generation, mobilization and canalization of savings. Banks stimulate savings by providing a number of incentives such as interest, safe custody and mobilize the fund that has the opportunity of productive investment.

**2. Monetization of Economy**

Money is the major means for accelerating trade and economic activities. Banks provide adequate paper money and coins available in the market. Businessmen don't hesitate to take money as means of payment as it is widely accepted by banks.

**3. Implementation of Monetary Policy**

A proper banking system is a necessary precondition for the effective implementation of monetary policy. Credit control and regulation by the government is not possible without active co-operation of banking system.

**4. Price stability**

Bank can control and create the credit in the monetary market. According to financial policy of government, banks could regulate the interest rate in deposits and loans. They also provide different types of banking services for industrialization. Ultimately, this will increase the supply of product. It will increase employment and public earnings. This helps to control price.

**5. Economic Development**

Banks help in the economic development of the country. Banks provides the opportunities to invest in the productive sectors by providing loans through the collection of deposits deposited by the one who has the excess of it. It plays the role of intermediary between the savings and investment.

**Development of commercial banks**

The growth of banking development is not old as compared to other developed countries. In the developed countries the commercial banks were established as early as in 17$^{th}$ century. They gradually undertook and handled the functions of central banks too; “Banks of England” is the glaring example of this process. Although the correct and adequate chronological history is not available due to the lack of authentic historical records in the respect of banking, there is plenty of historical evidence highlighting the presence of some crude banking practices in Nepal as early as in 8$^{th}$ century. According to the historical records in 723 A.D. Gunkam Dev, the king of Kathmandu had borrowed money to rebuild and to rule Kathmandu. Some 57 years later at the end of some century a merchant ‘Shankhadar’ introduce ‘Nepal sambat’ by clearing the indebtedness of the people. In 14$^{th}$ century Jayasthiti Malla, the king of kantipur introduces the various measures to codify the laws relating to commercial banks. At that time the business of the group of people called ‘Tanka Dhari’ who were engaged in the occupation of money lending was more or less similar to that of modern banking and their role had very much influence the economy to expand trade and commerce. They however were motivated mainly with the profit making and so, naturally use to lend against personal securities of merchandise in higher rate of interest. After wards during the premiership of sri Ranodip in 1880 for providing loans to the people of the Kathmandu valley at 5 percent interest against gold, silver and other ornaments. Tejarath adda was established. Thus, the name of king Gun kamdev, Sundra merchant shankadhar, business group Tanka Dharis and Tejarath comes serially in the history of Nepalese banking system.

In the overall development of banking system in Nepal “Tejarath Adda” may be regarded as the first remarkable step in organized banking and also the father of modern banking institution. The branches of this institution were opened in a number of districts in Terai region to supply loans to individuals against the security of the landed property. The main objective was to make loans available to individuals at a low rate of interest because money lenders were charging interest at exorbitant rates for a quite long time.

This adds rendered a good service to government service holders. It granted loans as collateral securities but did not accept deposits, which probably was not considered then to be a function falling within the competence of banking. Even later on, with the evaluation some kind of systematic is banking. “The kausi” or the government cashier office had the primary responsibility of handling government accounts.

However, the loan activity of Tearatan could not meet the raising need of whole society. On the one hand it serves only the civil servant leaving the general mass at the mercy of individual money lenders, who were charging, purchasing the standing crops at a very low price etc. On the other hand, with the growing awareness, emergence of some industries and other development programmers the need foreordain-banking facilities was felt more and more imperative. As a result the “Tejarath” was replaced by a commercial bank, Nepal bank ltd, which mark the beginning of a new era in the history of modern banking in Nepal.

**Licensed Commercial Banks**

- Nepal Bank Limited
- Rastriya Banijya Bank
- NABIL Bank Ltd.
- Nepal Investment Bank Ltd.
- Standard Chartered Bank Nepal Ltd.
- Himalayan Bank Ltd.
- Nepal SBI Bank Ltd.
- Nepal Bangladesh Bank Ltd.
- Everest Bank Ltd.
- Bank of Kathmandu Ltd.
- Nepal Credit and Commerce Bank Ltd.

- Lumbini Bank Ltd.
- Nepal Industrial & Commercial Bank Ltd.
- Machhapuchhre Bank Ltd.
- Kumari Bank Ltd.
- Laxmi Bank Ltd.
- Siddhartha Bank Ltd.
- Agriculture Development Bank Ltd.
- Global Bank Ltd.
- Citizens Bank International Ltd.
- Prime Commercial Bank Ltd.
- Bank of Asia Nepal Ltd.
- Sunrise Bank Ltd.
- Development Credit Bank Ltd.
- NMB Bank Ltd.
- KIST Bank Ltd.
- Janata Bank Nepal Limited

*(Source: Nepal Rastra Bank 2010)*

## Role of Commercial Banks

Nepal has been facing the problem of accelerating the pace of economic development. In this respect the role of commercial bank in the country if vital. The commercial banking system in Nepal is still in its infant stage as compared to other developed countries. However their important role in the economic development of the country has been fully realized and these banks are being oriented in their activities best suited for the overall economic development. Today there are 14 commercial banks are in operation. Among these, Nepal Banks Ltd. Is the oldest one and was established in 1937 A.D. These banks though not as modern as those of developed countries in their services and management's the role they are performing for Nepal's overall economic development can not be underestimated. They have been performing a leading role to the best of their capacity in the promotion of agriculture, industry, trade and commerce etc.

Nepal being an underdeveloped country, its industries, agriculture sector, trade and commerce are still in a state of infancy. Their development greatly depends upon the effective role of commercial banks. The insufficiency of capital for the establishment of the industries, modernization in agriculture etc. has become a serious problem for economic development in Nepal.

Presently, the contribution of commercial banks in agriculture sectors has been expanding. It provides the credit facilities for the development of agriculture in cases where agriculture development banks and co-operative societies do not enter into the field. The agriculture sector needs more and more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation bank in promotion agricultural sector is increasing in many of the countries, especially in development countries like Nepal.

The economy of our country is dominated by agricultural sector. This could be well exemplified from the figure that about 80% of the total population is engaged in agriculture and about 40% of the national income comes from the agriculture. Similarly, about 51% of the export trade is in agriculture products. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture. Thus it is very clear that in such a country the financial help to the agriculture sector is most and indispensable for strengthening for the base of national economic structure.

Nepal being a developing country, majority of the farmers in the villages is very poor. They do not have the sufficient capital to invest in this sector. The commercial bank has an important role to play here by helping the agricultural sector through two channels.

i) By providing fixed capital to Agriculture Development bank by purchasing its shares or debentures.

ii) By giving direct credit facility to the farmers on the mortgage of their land, house, food-grains and other cash crops like jute, tobacco etc.

As the agricultural development needs capital, the commercial banks are helping by providing financial help to the farmers and they are able to invest or utilize the fund in different ways that make them increase agricultural product. Thus in order to accelerate the tempo of economic development of Nepal. The government and the commercial banks should play crucial role in the agricultural sector of the economy. Thus the second development and wide geographical coverage of commercial banks particularly in agricultural is a prerequisite for accelerated and sustained economic growth. In recent years even though the commercial banks have made rapid progress in mobilizing financial resources they are still inefficient in their lending policies. The lending policies of Nepalese commercial banks resemble more closely to those of the 19$^{th}$ century London banks than 21$^{st}$ century developing institutions. In a way it would seen apparent that the accreted private sector investment is dependent on the commercial banks giving more emphasis in medium and long term credit for equipment and constructions and more liberal policy on the requests or collateral. In the respect, in recent years the Nepal Rastra Bank has been doing some useful services with its development oriented approach, but it goes, without saying that there is a long way to go to this particular field.

Commercial banks in Nepal have been helping farmers by providing different facilities. The helps are in the field of cultivation, exporting, rice, jute, paddy etc and providing facilities regarding better market for their product, helping to start livestock's poultry firm rice firm, rice mills. Animals husbandry, bee firm etc and also provide the guidance for them.

For Nepal's industrial development a significant role of commercial bank is indispensable. Due to insufficiency of capital the industries are depending more and more upon the supply of capital by the banks. It would not be exaggeration to state that commercial banks are mainly responsible for whatever the industrial development has been achieved by Nepal. However, more recently many other financial institution like Agriculture Development Bank (ADB), NIDC have already been established for the development of agricultural and industrial sector of the country. Nevertheless, the commercial banks are also continuously participating in these activities. Being a mountain many places are very remote and sometimes require many weeks to approach some of the places. Due to lack of transport and communication facilities and other geographical causes the country has been still facing the problem of imbalances economic growth, the five development centers which are established for planned and balance economic growth of country has contribute to some extent in this direction. However, there is still much to be achieved. The scattered capital of the country is unable to solve appropriate role to play here by expanding their branches in the different hilly and terai regions however remote they may be and availing the required capital to the need of the local people.

Industrial sector, the banks are providing the necessary finical help for the industrial establishment in the country. They provide short and medium term loans to industries to purchase machineries, tools, raw, materials etc. and to introduce new and developed techniques of production.

Nepal being a landlocked country coupled with the transportation and geographical difficulties, its foreign trade is still underdeveloped. It is not only foreign trade but also the domestic trade is equally under developed. Only few years ago, Nepal had trade only with India and Tibet. The development of foreign trade is vital. Without the development of foreign trade the economic development of a country will not be possible. It is not only to fulfill the demand for the development and constructional material within he country but also for the fulfillment of the demand of the daily consumption goods, the importance of the foreign trade is increasing day by day. Today Nepal’s trade has extended with different countries of the world. The establishment of commercial banks has promoted the domestic and foreign trade of Nepal by spreading their branches within the country and extending close relations with many renowned important banks of other countries. It is helping the exporters and importers by providing those facilities of D.D, L.C., L.B.C., O.B.C. and T.T etc.

The role of commercial banks for the development of transport cannot be overlooked. As the rapid development of roads and highways are in progress the banks have helped in meeting the demand of the means of transportation by providing funds for transport industry. Similarly, banks are playing important role in tourism industries by helping to expand hotel facilities dealing with foreign exchange and accepting traveler cheque from the tourists. Role of CBs in the national economic development can be summarized as follows.

I. CB extends valuable services to trade and industry. The economic development of the country depends on the growth and development of trade and industry. Investment of huge amounts of money is required for the industry development. Money is too scares. Its adequate supply is difficult task. Bank undertakes this stupendous task by mobilizing the saving of the people and leading the same to the trades and industrialists, be their ability to create credit, the banks have placed a very large sum of money at the disposal of the nation. The cheques, the banks draft and letters of credit enable traders to transfer large sum of money from one place to another. The use of these documents and the bills of exchange has encouraged both internal and international trade.

II. CBs extend credits facilities to the right type of person and right type of industries. In this way the banks not only help in the industrialization of the country but they also have a way in the right type of economic development required. They grant loans and advance to manufacturers whose products are in great demand. The manufactures in turn increases their production. This assist in raising the national income of the country by increasing the national production.

III. CB helps in the uniform development of the different regions in the country. Money from the surplus areas is diverted to the backward areas for the purpose of investment and development. In case of Nepal, presently they are making investment on backward areas under priority sector investment scheme. Thus they are aiding to uplift the economically backward people and region.

IV. The mechanism of credit creation helps to expand the business. Fluctuations in the credit facilities granted by them have an important hearing on the level of economic activity. Expansions of banks credit are followed by increase in production, employment, sales and prices. In the developing country the CBs offer more and more credit and increase the resources of the industries, there by causing faster economic growth.

V. CBs help in capital formation. A high rate of saving and investment constitutes capital formation. They mobilize the small saving of the people and utilize the money for productive use.

In addition to above, CBs provide other valuable services to trade and industry, like discounting bills transfer of money etc. banks have now come to occupy a very important position in the economy of nation. But if banking activities are not properly guided the national economy is likely to be affected badly. Some writers compare credits expansion with blood circulation. To them, circulation of credit should be as smooth as blood circulation.

**Deposit Collection & Investment**

**Concept of Deposit**

Deposit is the sum of money lodged with a bank, discount house or other financial institution (Shrestha & Bhandari, 2059, 28). Deposit is nothing more than the assets of an individual which is given to the bank for safe-keeping with an obligation to get something (interest) from it. To a bank these deposits are liabilities. Commercial bank Act 2031 (1974) defines “Deposits” as the amount deposited in a current, savings or fixed accounts of a bank or financial institution (Bhandari, 2003, 73). The deposits are subject to withdrawals by means of cheque on a short notice by customers. There are several restrictions on these deposits, regarding the amount of deposit, number of withdrawal etc. These are considered more as investments and hence they earn some interest. The rate of interest varies depending on the nature of the deposits. The bank attracts deposits from customers by offering different rates of interest and different kinds of facilities. Though the bank plays an important role in influencing the customer to save and open deposit accounts with it, it is ultimately the customer who decides whether s/he should deposit his surplus funds in current deposit a/c, saving deposits or fixed/time deposit a/c. Bank deposits arise in two ways. When the banker receives cash, it credits the customer's account, it is known as a primary or a simple deposit. People deposit cash in the banking system and thereby convert one form of money, cash, into another form, bank money. They prefer to keep their money in deposit accounts and issue cheques against them to their creditors. Deposits also arise when customers are granted accommodation in the form of loans. When a bank grants a loan to a customer it doesn't usually pay cash but simply credits the customers account with the amount of loan. Of course, there is nothing that prevents the borrower from withdrawing the entire amount of borrowing in cash but quite often s/he retains the amount with the bank as deposit.

**Types of Deposit**

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

- **Current Deposit**

A current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand. The account never becomes time barred, because the limitation does not run until a demand is made by the customer on the bank for the payment of deposit. These accounts are generally opened by business houses, public institutions, corporate bodies and other organization whose banking transactions are numerous and frequent. As these deposits are payable on demand, banker is obliged to keep larger cash reserves than are needed in the case of fixed and savings deposits. This type of account is just a facility offered by the bank to its customers. So such deposit doesn't yield any interest return.

The deposit in which an amount is immediately paid at the time of any account holder's demand is called demand deposit (Bhandari, 2003, 73). Its transaction is continual & a very small portion of such deposit can be invested in the productive sector. Though the bank cannot gain significant profit by investing it in new sector, this is one of the facilities given to the customer. Therefore, the bank doesn't give interest on this account. For this study this types of deposit is not suitable.

- **Saving Deposit**

According to Commercial Bank Act 2031 (1974) saving account means "An account of amounts deposited in a bank for savings purposes." The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule. Similarly there is also divergence as to how much amount of money can be withdrawn. But if the customers want to withdraw more money from the bank which is not allowed by it but if s/he gives pre-information to the banks, s/he can withdraw more money. The bank fixes the minimum and maximum amount of withdraw able through a cheque from this deposit. If the bank goes into liquidation, priority is given to the saving deposit than current and fixed deposits while repaying the liabilities.

- **Fixed Deposit**

Fixed deposits constitute a very important resource for banks as bank need not keep greater reserve in respect of such deposits. Under the commercial Bank Act 2031 (1974), "Fixed account means as account of amounts deposited in a bank for certain period of time." The customers opening such account deposit their money in the account for a fixed period. Usually, only the person or institution who wants to gain more interest opens such type of account. High interest rate is paid to this deposit as compare to saving deposits. The bank and the customer can take benefit from this deposit. The bank invests this money on the productive sector and gains profit and the customer too can be made his financial transaction stronger by getting more interest from this deposit. The principal amount with interest must be returned to the customer after expiry of fixed time.

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

**Importance of Deposit**

Deposit arises from saving. An individual's income equals consumption plus saving. S/he deposits the saved part of income in the bank and gets interest from it. Banks in turn lend this money and earn profit by charging high interest rates. The borrowers from banks, invests this fund in productive sectors yielding more return than the interest on borrowed fund. This investment leads to create new employment opportunity in the economy. Ultimately due to new employment the purchasing power of the economy increases and finally GDP and growth of the economy occurs. It means that the deposit has very important role in the economy. There is a direct relationship between deposit of banks and the investment in the economy. If the volume of deposit is low, the investment in the economy also lags behind due to lack of resources. The deposit of banks is the accumulated capital which can directly be invested.

There is a great need of such deposit in the developing countries. Deposit includes the idle money of the public, bank being the inter-mediator to accept this sort of money and help to canalize this in productive sector. So the importance of banks and financial intermediaries is larger in present context.

**Investment**

The existence of any commercial banks largely depends upon the mobilization of deposits. Banks can no longer function well in the absence of a adequate deposits. In other words, deposits are the life blood of any CBs and strength and weakness of the bank largely depends upon the capability to attract more people to deposit their saving. More the bank collect deposits more will be its capability to invest much valuable funds in profitable ventures. But it is also quite true that the amount of growth in deposits should be in proportion to the increase of growth of loans and advances investment. If the ratio of deposit to investment is not maintained properly then the bank face a serious problem of paying more interest amount to its deposits holders that what it can generate income out of it. It is highly necessary that the increase in deposit should be in the proportion to the growth of investment. If the ratio is not maintained properly that is, if the amount of deposit is very large and more than what it can invest, the bank will have to face a serious problem of paying off more interest amount to its deposit holder than what it can generate income from investment. Also if the size of the investment is very big than its deposits, then the bank will have the problem of shortage of capital to meet the demands of its customers. So it is not only necessary that the bank should be in proportion to the growth of deposits. So that deposit/credit ratio may be properly maintained. Besides every case should be taken to minimize the possibility of bad and doubtful debt as far as possible.

**A. Investment on Government Securities, Shares and Debentures**

Though a commercial Bank can earn some interest and dividend from the investment of government securities, share and debenture, it is not the major portion of income but it is treated as a second source of banking business. A

Commercial bank may extend credit by treating it as a second source of banking business. A commercial bank may extend credit by purchasing government securities bonds and shares for several reasons.

Some of them are given as:

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

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

**B. Investment on other Company's share and Debentures**

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of NRB directives, the commercial banks purchase shares and debentures of regional development bank, NIDC and other development banks.

**C. Sector wise Investment**

Sector wise investment refer to the investment in various sectors as agriculture, productions, construction, transportation, communications, wholesalers & retailers, Consumable loan that are considered essential for overall economic growth of the nation. They constitute the basic infrastructures that provide the logistics support for the growth and prosperity of the economy. By investing in such sectors banks can help the entire nation in pacing up the economic growth and the prosperity of the nation.

### D. Priority & Deprived sector Investment

Priority sector includes micro and small enterprises, which help to increase production, employment and income as prioritized under the national development plans with an objective to uplift living standard of general public. Many directives have been introduced and amended as per the requirement by NRB. Commercial banks are directed to invest 5% in priority sector with inclusive of 3% in deprived sector. The credit limits in the priority sectors has been raised to Rs. 2.0 million from Rs 1.0 million on agricultural and service sector and from Rs 1.5 million to Rs 2.5 million on cottage and small-scale industry.

Likewise deprived sector credit includes low income and particularly socially backward women, tribes, physically impaired groups etc. Deprived sector investment is advanced up to Rs 30000 per borrower of micro credit programs and projects. However, priority sector credit programmed is being phased out by NRB.

## Investment Policy

Investment operation of CBs is very risk work. For this purpose CBs should adopt sound and variable polices regarding loans and investment. The most important problem of CBs is to invest its deposits and capital type funds. CBs invest their deposits and fund to fulfill its different purpose, to earn something to pay interest for deposits, to meet the office expenses and to earn profit etc.

"Lending is the essence of commercial banking consequently the formulation and implementation of sound lending polices are among the most important responsibility of the bank directors and management." (Crosse H.D. Page 191) According to H.D. Crosse the lending policies should be carefully analyzed and it should be careful while performing its credit creating function effectively and minimize the risk.

According to J. D. Clemen, “commercial bank should consider the national interest followed by borrowers and interest of the bank itself.” (Clemen, 963)

So, consideration should be given on following factors while investing loans.

a) Lending policy must be well spread.
b) It should be basically of short-term character.
c) It should be profitable.
d) It should be repayable.
e) It must be with adequate securities.

- **Principles Adopted by Commercial Bank in investment or factors affecting lending polic**y

There are various factors affecting investment policy. Before formulating a lending policy many things have to be considered. According to H. D Crosse, “A bank’s lending policy is in effect” (Crosse, 191) screening devices by which the directors seek to establish the kind and character of loans they think a bank should make.

As another country the lending practices of CBs in Nepal have also been changing overtime. The income and profit of the bank deposits upon its lending procedure, lending policy and investment of its fund in different securities. The greater credit created by the bank, the higher will be the profitability. A sound lending and investment policy is not only prerequisite for the banks profitability, but also significant for the promotion of commercial saving of a background country like Nepal.

There are some important criteria should be kept into mind before formulating a lending policy by the CBs.

**a. Safety and Security**

CBs adopt safety principle before formulating its investment policy. CBs invest money out of deposits. Deposits are the money kept by the people. So it has to invest its deposits safety. While investing its deposits the banks always direct attention toward the securities of the loan. The bank should never invest its fund in those securities, which are subject to too much depreciation and fluctuation because a little difference may cause a great loss. It must not invest in funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute also. The bank should accept that type of securities, which are commercial, durable, marketable and high market prices. In the cases “MAST” should be applied for the investment. Where,’

M = Marketability
A = Ascertain ability
S = Stability
T = Transferability

- **Marketability**

Marketability is the most important factor, which should be considered while accepting securities by the bank. Only those goods, which are kept as security, must have qualities of being easily sold in the market whenever it is needed. So it is necessary for the bank to examine the security of goods.

- **Ascertain Ability**

It means to say that it can be easily determine the price of secured goods at any time. If the price of the goods cannot be determined easily it should not kept as a security while lending by the bank. For example, the diamond which cannot be easily determined the price easily determined at any time.

- **Stability**

There must be stability in those goods, which is taken as a security. If the change takes places, time to time, it should be rejected.

- **Transferability**

While accepting the goods as secured goods must have qualities of being transferability from one hand to another or one place to another place.

**b. Liquidity**

There is much more chance of loss while lending for the long term and low market price of securities. If the bank lends for long-term loan, the bank cannot do the payment to its customer who had deposited money. When the customer demands, it cannot meet because there will be no liquidity in the bank. So that there may be had effect on the reputation of the bank. The bank should in keeps some deposits of the people in liquid form. For the safety of the loan the bank lends for short term also.

"Liquidity is the ability of a bank to satisfy demand for cash in exchange for deposit." (Upadhya & Tiwari, 120) Liquidity is a great problem to the bank because higher or lower liquidity are not favorable to the bank. Higher liquidity less will be the profit to the bank. Less the liquidity, higher will be the risk to the bank. So to keep balance liquidity the CBs have to maintain the liquidity according to its deposits.

"Liquidity is the protection against the risk that losses may develop if banks are forced to sell or liquidity credit worthy assets in an adverse market." (Crosse, 1963, 114)

When the ratio of loans to deposits is high, the bank will be less able to make additional loan. So the loan to deposit ratio has psychological effect on the bank's management. It should be more cautions about it. So before lending it should have to keep into mind about the liquidity position of the bank.

**c. Profitability**

While framing the investment policy the CBs have to into mind the profitability principle. It is because bank is also a profit maintained institution. The CBs utilize its fund where more profit can be gained. But consideration should be taken on the liquidity position of the bank. If the bank invest on the long term there will be more profit, but there will be lack of liquidity. So while lending by the bank, the balance must be done between the liquidity and profitability. However it is very difficult to maintain the balance between profitability and liquidity principles. If the bank invests its fund on long-term, there will be delay in the repayment of loan and low possibility of the repayment of loan. If more liquidity is deserved there will be less profit because banks have loans, there will be less profit. That is why optimum reconciliation of both the liquidity and profitability concepts has to be carried out in farming investment policy.

Profitability also depends upon the structure of interest rate. In Nepal interest rate is determined by NRB. The difference between the interest changed upon borrowers and the interest paid to depositors minus other expenses of the banks constitutes profit.

Therefore, the profit of CBs mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. So they must invest their funds where they gain maximum profit.

**d. Purpose of Loan**

The purpose of the loan should be considered as per which the loan is taken. The bank should give suggestion to the borrower to invest money where he can more successful. If borrower misuses the loan granted by the bank. They can never repay and banks will process heavy bad dents. Modern businessman is seeking sound financial advice as well as credit availability from his banker. So before lending the loans, the bank should examine the detailed information about the project or activities.

**e. Diversification**

Diversification means to invest money in different sector or institution but not only to invest to meet in one sector or institution. If the bank lends one person or Institution. More possibility of loss may be raised. Mr. Upadhay and Tiwari have pointed out a proverb, as “A bank should not lay its eggs on the same basket” this saying is very important to the bank and it should be always careful, not to grant in only one sector. To minimize risk a bank must diversify its investment on different sectors.

**f. Tangibility**

Though it may be considered that tangible properly does not yield an income apart from direct satisfaction of possession of property, many times, intangible securities have lost their value due to price level inflation. CBs should proper tangible security to intangible one.

**g. Legality**

A CBs must follow the rules and regulations as well as different directions issued by NRB, ministry of finance. Ministry of law and other while mobilizing its funds, CBs should note invest its funds in illegal securities because it will bring out many problems for the investors.

**Interest Rate Policy**

The bank charges certain rate on various kind of loan is called interest rate. Interest rate is charged by the bank, for the service by providing loan to the customer. So it is one of the major profits of the bank. The loan, which is provided to the customer, is greatly affected by the interest rate. There is inverse relationship between the interest rate and the loans and advances. If the interest rate charged by the bank is very high the demand for the loan and advances will by low and if the interest rate is very low the demand for the loans and advances will be high.

"Interest rate risk exists between changes in conditions in financial markets will after the balance between the supply and the demand for loan able funds." (Liariss, C. Lowell, 1965)

"When funds are plentiful market rate generally trends to decline, the banks seek loan more aggressively and therefore lower their rates to introduce managerial borrowers to come into the market. When funds are scares banks raises their rates and some potential borrowers may differ the use of credit or seek it else where." (Crosse, H.D. 1963)

When the bank changes the interest rate, it should cover,

a) The cost of the fund loaned.
b) The cost of making servicing different kinds of loans.
c) A cost factors resenting the profitable losses which may be incurred over time and,
d) A reasonable margin of profit

**The Interest Rate Structure**

In this part the interest rate structure, the interest spread and the Nepal Rastra Bank and the interest rate are mentioned.

**Basic Concept**

Interest is a payment made by the borrower to the lender for the use of capital. Interest is expressed as a rate percent per year. Interest is also known as reward for risk. Greater the risk involved in a loan, higher will be the rate of interest and vice versa. Most of the developing countries of the world face the problem of security of domestic capital in relation to the size of investment-required achieving high and self-sustaining economic growth. The amount of additional capital is needed at each increasing level of income fore economic development. For the use of existing natural and other resources financial sector should direct the investors into those fields where the expected rate of return is higher than another sector. They earn calculate the rate of return by comprising with the institutional interest rate for the fund, which they had borrowed. So that the interest rate of the existing banks and financial institution is the guideline for the investors.

The monetary authority determines the institutional interest rate after analyzing the economic system adopted by the country. Interest rate depends upon economic activities and existing policies of the nation. On every economy, we find the inverse relationship between interest rate and investment and direct relation between interest rate and saving. Interest rate plays very important role in developing countries like Nepal where the demand of capital is increasing day by day. An appropriate interest rate can divert investment in proper and targeted field. For sound financial development and to mobilize the available resources interest rate should be positive. The interest rate is an effective rationing device for the allocating of scarce resources between alternative investments. It can provide a social discount market-clearing device, influencing in an optional manner the choice of what to produce and how to produce it.

**Interest rate structure in Nepal**

In Nepal, there are two kinds of sector in which interest rate prevails. The first is unorganized sector and the second organized sector. Let us discuss them one by one.

**I. Unorganized Sector**

The unorganized rural credit is prevailing in the rural areas of Nepal where about 88% of the total population live. The unorganized rural financers are the traditional and important source of rural credit in Nepal. In the unorganized sector, the credit supplier is indigenous banker and traditional moneylenders. The traditional moneylenders try to keep the peasants and the poor people permanently in debt. At the present situation also the traditional moneylenders are in existence in every part of the country. In the rural property owners, merchants, friends, relatives etc. supply major part of the credit. The aim of these moneylenders is to hold money and lend to needy persons in order to earn the higher rate of interest. The interest rate they charges varies from place to place and it have to borrow. The lenders take high interest rate to the persons who got to foreign countries for earning purpose.

The rate of interest mostly on these kinds of loans is 24% to 36% or above. Sometimes it is 50%, however it is not the same for the different places and situations. This type of high interest rate mainly prevails in the hilly regions, which shows that hilly people are not a ware of the legally permissible Rte. In some of the hilly areas the interest rate is paid in the form of rice, corn etc.

A study conducted by NRB in 1994 reveled that only 20% of the rural borrowers have access to organized sector for arranging a certain part of their total financial requirements. Dominance of the unorganized sectors in the economy requires to be gradually reduced by increasing both number of financial institution and financial instruments. In the unorganized sector, there is a lack of adequate and authentic data so that the discussion of interest rate is only focused on the organized sector.

**II. Organized Sector**

For the study o interest rate, we take the central Bank (in context of NRB), CBs and other financial institutions are the organized sector of the economy. The interest rate prevailing in the organized sector is very low comparing to that prevailing in the organized one.

The following types of interest are found in the organized sector of Nepal.

**a) Interest on Government securities**

The Government fixes certain interest rate on the Government securities. The Government securities are of different maturing periods and the interest is given the six-month installment. There are three types of Government securities, which are:

i) Treasury Bills

ii) National Saving Certificates

iii) Development Bonds

**b) Interest of NRB**

NRB, the monetary authority of the country is non-profit making organization and it promotes the investment of CBs by increasing or decreasing the bank rate. There are two types of interest operated by NRB, which are:

I) Refinance Rate

II) NRB Bond rate

**c) Interest of CBs**

The CBs are profit-making organization and they give loans in high interest rate and accept deposit in low interest rate. I have are two type of interest operated by CBs, which are

i) Deposit Rate

ii) Lending Rates

**d) Interest of financial Institution**

The agricultural development Bank (ADB) of Nepal and the Nepal Industrial development Corporation (NIDC) flow the loans to the various sectors of the economy with the aim of promoting their investment. They provide loans and charge certain interest to co-operative and other institutions.

**The Interest Spread**

The interest given on deposit and the interest charged on loans both are collectively known as interest rate. The interest spread is defined as the difference between the lending interest rate and deposit interest rate:

i.e. The interest spread = The lending interest – The deposit interest rate

The high interest rate given on deposits attract the customer for more and more saving and depositing it in the banks while the low lending rate decreases the cost of capital promoting investment. Therefore, the good banking system is that which balances between the deposits and loans rate properly.

In the developed countries, the interest spread to be within the limit of 1-2% while in developing countries, it is found to be about 5-6% in maximum but in Nepal it exceeds that limit also.

## Review of NRB Directives & Legal Provisions

### Nepal Rastra Bank and Interest Rate Determination

Interest rate is a monetary phenomenon and the matter of concern of the monetary authority. In case of Nepal the monetary authority, NRB is responsible for the policy measures, which are adopted to maintain and change the interest rate structure of the country.

### NRB and Controlled Interest Rates

NRB had controlled the interest for CBs and financial institution for a long time. Before the deregulation of May 1986, there were about 20 controlled lending rates differentiated between sectors, use of funds and types of collateral. Further, the interest rate structure was not very rationale and the central bank was determining the whole set of deposit rates and instruments. The interest rates had not changed much overtime, although a significant and a historical upward revision in interest rate structure took place in 1975. The direct control of lending rates provided on easy mechanism for credit allocation by differentiating between priority and not priority sectors in which the farmer received concessionary interest rates. The direct control of deposits rates before the deregulatory moves initiation of 26$^{th}$ may 1986 was considered a potentially effective instrument for mobilizing domestic savings.

Some of the inconsistencies, existing in the financial system under the controlled interest rate regime, induced NRB to move towards partial deregulation of the financial system. The non-flexibility of interest rates restricted the institutions (with les resources) in mobilizing more saving by offering higher rates. The wide margin between deposits and lending rates, the introduction of CBs with foreign bank’s collaboration of commercial banking activities were some of the main reasons motivating the regulatory authority towards financial deregulation. A move towards deregulation by granting CBs and financial institution the authority to fix interest rates were initiated on May 26, 1986.

The overall impact of controlled interest rates and other regulations was that the asset and liability structure of the CBs was tightly controlled. The direct control of deposit and lending rate becomes redundant. During the years after deregulation the banking activities developed rapidly as is evident by the growth of assets, the expansion of bank branches in rural areas and gradual decline of currency deposit ratio over the year.

**NRB and liberalized Interest Rates**

Effectives August 31, 1989 the interest rates of bank was completely liberalized. According, CBs was granted autonomy in fixing its own deposit and lending rates. The rationale for ending the administered interest rate regime was to let market for ending the determine interest rate structure, bring about flexibility in the mobilization of financial saving and make efficient allocation of available resources.

Interest rate liberalization, however could not fully meet the objectives behind this step. The oligopolistic nature of commercial banking system produced cartel ling in interest rate structure could not be transparent and depositors and borrowers were not treated uniformly in term of interest rates. Thus instead of fair competition in the market, discrepancies were observed in the interest rate structure. To correct this effective August 22, 1992 the NRB issued the following directives to banks and the other financial institution (40 year of the NRB 1956- 1996 NRB, April 1996)

Interest rate on deposits of at least up to one year to be clearly spells out.

i) Range of interest rates on the credit of same type or purpose not to be more than one percent.

ii) Fixation of interest rate on flat basis to be stopped.

In addition to this, the NRB also suggested CBs to limit the spread of interest rate at 6% within mid-December 1993. This was necessary because the widening interest rate spread had not only a deleterious impact on the global competitiveness of the domestic financial system but also had created exploitative type of financial intermediation. The compliance of the financial institution to this suggestion however remained less than satisfactory. In considering the situation of sluggish economic growth, slowdown in the growth of private sector credit higher interest rate spread of CBs, rising demand of the entrepreneurs and businessman for the reduction of interest rate and as per the commitment of the government in the budget spread of the fiscal year 1998/99 to limit the interest spread within 5%, the NRB issued the following directives on interest rate on July 30, 1998 (NRB, economic Report 1998/99).

**a.** The CBs are required to maintain the weighted interest spread of their deposits and lending rates below 5%. In order to maintain this level, CBs had to make necessary adjustment in their interest rate structure.

**b.** Counting procedures for weighted Interest Spread: The interest spread would be calculated as the weighted difference between interest income of CBs derived from total domestic and foreign loans and advances, money at call and balances held abroad and interest expenditure payable on the deposits held by the CBs.

For the simplicity and understanding the accounting procedure the following simple mathematical formula could be used.

***i) Derivation of weighed average lending (interest) rate***

$$X \frac{\textit{Total} \text{ interest income form loans and advances, money at call \& balance abroad held}}{\textit{Average} \text{ loans and advances, average money at call, average balance held a broad}} | 100$$

***ii) Derivation of weight average deposit (interest) rate***

$$X \frac{\textit{Total} \text{ interest expenses on total deposits}}{\textit{Average} \text{ deposit}} | 100$$

***iii) Derivation of weight interest spread***

= Weighted average lending rate – weighted average deposit rate

**c.** The interest spread would be mentioned on the basis of half yearly statistic (of august to January and February to July) that are filled in a prescribed format and dispatched to banking operation department and inspection and supervision Department of the NRB.

**d.** If the interest spread of any CBs exceed the stipulated spread limit of 5% the exceeding percent multiplied by total interest income of that period would have to be deposited in a separate special fund created for it. The distribution of dividend out of this fund account is to be restricted. However, such special fund would be taken as a part of supplementary capital for the calculating purpose of capital adequate ratio.

In case o0f newly established CBs the provision of interest spread would be applied only after a year from the date of their operation.

**NRB rules regarding funds mobilization of CBs**

Nepal is one of the countries of the world, which is struggling hard to creep in the path of all the round development of the nation. One of the main hinder now of economic development of nation is the lack of sufficient amount of capital for Industrialization, agriculture, trade and commerce development. It is said that Nepal lacks abundance of capital for developing but the shedder aspect is that we are not utilizing our available resources in proper way so there arise the need for proper utilization policy.

To collect unproductive saving from the people in the form of capital is known as deposit mobilization and this is the main source of formation. To mobilize bank's deposit in different sector and different parts of the nation, to prevent them from the financial problem, central bank (NRB) has established a legal framework by formulating various rules & regulation. These directions must have direct or indirect impact while making decisions. There efforts have been made to discuss those rules & regulation, which is formulated by NRB in term of investment & credit to priority sector, deprived sector other institution single borrower limit, CRR loan loss provision, capital adequacy ratio, interest spread, productive sector investment. A commercial bank is directly related to the fact that how much fund must be collected as paid up capital how much fund is needed to expand the branch, how much flexible & helpful the NRB rules are in this matter etc. But here are discuss only that matter, which are related to investment function of CBs. The provision established by NRB in the form of rules & regulation are discussed here under.

## Review of Articles & Other Research Works

Before this, various students regarding the various aspects of CB's such as financial performance, lending policy investment policy, interest rate structure, resources mobilization and capital structure, has conducted several thesis works.

So far various researchers have conducted research work as regards activities of CB's of Nepal. Study of predecessor researchers is relevant to our study. An analysis of some researchers is follows:

### Review of Articles/Journals/Magazines

In this section, attempt has been made to review some relevant articles in different economic/finance journals, The World Bank Bulletins, magazines, newspapers and other related literature.

Mr. Ramesh Lal Shrestha in his article "A study on deposits and credits of CB's in Nepal" (Shrestha Ramesh Lal, 2045 B.S.) concluded that the credit deposit ratio would be 51.30 percent, other things remaining the same, in 2004 AD, which was the lowest under the period of review. So he had strongly remanded that the CBs should try to give more credit entering new field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

Latin America's banking system in the 1980s has concluded that most of the banks concentrated on compliance with central banks rules on reserve requirements, credit allocation and interest rates. While analyzing loan, portfolio quality, operating efficiency and soundness of bank investment management have largely been over looked. The huge losses now found in the bank's portfolio in many developing countries are testimony to the poor quality of their oversight investment function. He further adds that management in financial institutions has involved inadequate and over-optimistic loan appraisal, tax loan recovery, high-risk diversification of lending and investment, high-risk concentration, connected and lending loan mismatching. This has led many banks of developing countries to the failure in 1980s.

Mr. Bodhi B. Bajracharya in his article, "Monetary Policy and Deposit mobilization in Nepal" (Bajracharya Bodhi B., 2047 B.S. 93-97) has concluded that mobilization of domestic savings in one of the prime objective of the monetary policy in Nepal and CBs and the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Another article outlined "The role of CBs in Nepalese contest" (Serra Grill, 2047 B.S. 31-36) of Mr. Gill Serra, concluded that the five CBs were improving their services, due to the pressure of complementation for the public benefits.

Mr. Jit Bahadur Joshi in his thesis paper outlined. "Lending policy of Commercial Banks in Nepal" (Joshi Jit Bahadur, 1982) concluded that CBs have collected much resource from people but they are far behind in their utilization. CBs in Nepal are still lazy to play an active role to utilize their resources collected from different sector in accordance with the med of the economy.

Dr. Govinda Bahadur Thapa, in his article "The financial system of Nepal," (Thapa Dr Govida Bhadur , 1994) has expressed his view that the CB's seems to be doing well in mobilizing deposit likewise loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sector along with the traditional

Dr Sunity Shrestha, in her researcher, “Investment planning of commercial bank in Nepal” (Shrestha, 1993) has made remarkable efforts to examine the investment planning of CB’s of Nepal. On the basis of the study the she concludes that bank portfolio (loans and investment planning) of CB’s in Nepal has been influenced by the variable securities rate. Investment planning of CB’s in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank (NRB). So that investments are not made in professional manner. Investment planning and operation of CB’s in Nepal has not been found satisfactory in terms of profitability safety, liquidity, productively and social responsibility. To overcome this problem she has suggest, ”CB’s should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.”

Pradhan, (1996) has presented a short glimpse of banks’ investment in different sectors, its problem and prospects through his article, "Deposit mobilization, its problem and prospects". In his article, he has expressed that "For any financial institution it may be commercial bank, finance company, cooperative or non-government organization, deposit is like a life blood". He also added in consideration of 10 commercial banks and nearly three dozen finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks other organizations rely heavily on the business deposit receiving and credit disbursement.

In regarding this, Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective.

- Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.
- Unavailability of the institutional services in the rural areas.

- No more mobilization and improvement of the employment of deposits in the loan sectors.
- Due to the lack of education most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash ornaments or kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

Pradhan mentioned that deposit mobilization carried out effectively is in the interest of depositors, society, financial sectors and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

Dr Sunity Shrestha in her article, “Lending operation of CB’s of Nepal and its impact on GDP” (Shrestha (Dr) Sunity of 2055 Page 23-27) has presented with the objectives to make an analysis of contribution of CB’s lending to the gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive in part of lending of CB’s to the GDP. In research mythology, she has considered GDP as the dependent variable and various sector of lending viz. Agriculture industrial, commercial, services and general and social sectors as independent variable. A multiple regression technique has been applied to analysis the contribution.

The multiple analyses have been shown that all the variables expect services sectors lending has positive impact on GDP. Thus in conclusion she has accepted the hypothesis i.e. there has been positive impact on GDP. In conclusion she has accepted the hypothesis i.e. there has been positive impact by the lending of CB’s in various sector of economy except service sector investment.

In the same way, Mr Dev Lal Kashi, In his article, “The changing face of the banking sectors and the HMG/N recent budgetary policy” (Kashi Dev Lal Vol 25, 1996, 27-32) concludes that the following on introduction of the perform in the banking sectors as an integrate part of the liberal economic policy, more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily the two-government controlled banks, NBL and RBB have also shown an improvement of non-performing loans and are taking steps to adopt improved technology. However, higher economic growth with social justice bringing a significant benefit to the poor are yet to be achieved as unvisited by the HMG/N.

Another researcher Mr Udaya Bahadur Silwal Blames CBs from various angles. According to him “CBs are able in the collection of the resources from the people. But in the process of utilizing them they are still behind. CBs in Nepal are not playing active role to utilizing their resources collected from different sectors, according to the need of the economy. Due to lack of proper supervision banks loans are not directed towards productive purpose and the country is always facing the problem of shortage of loans.

He also blames CBs on the ground of higher interest rate. He suggests that bank interest rate should be lowered in order to make the bank investment effective. Further, he blames CBs for not following the principle of diversification. His view is that CBs are investing on business sector only.

The banks are such types of institutions, which deal in money and substitute for money. The deals with credit and credit instruments. Good circulation of credit is very much important for the bank. Unsteady and unevenly flow of credit decisions harms the economy and the banks as well. Thus to collect fund and utilize it in a good investment, is not a joke for such organization. An investment of fund may be the question of life and death for the bank.

Collection of deposit constitutes primary function of Commercial banks. Deposit are the main sources of commercial banks for lending and investment operations. According to Keynes, “Loans are two children of deposit and deposits are two children of loans." Higher the volume of deposits higher will be the volume of lending and investment, which again generate higher volume of income. So as commercial banks tries to mobilize as much deposits as possible by following various devices.

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

William F. Sharpe and Alexander's J. Garden define investment in this ways, "Investment in its broadest, sense, means the sacrifice of certain present values for (possible uncertain) future value." (Shape F. William and Alexander J. Garden, New Delhi)

"Money is a commodity supplied by the central bank in the form of a currency and by the commercial banks in the form of deposits." (Fry M.S. CEDA). It is now cleared that commercial banks also conducts the function of issuing notes through it is not in actual form. So bank deposit constitutes one of the most influential factors in the whole financial system of a country. They are the largest element of the form of investment.

Frank K. Reilly define investment in this words "An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the tome the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the fund."

From the other definition it is clear that an investment means to trade known rupee amount today for some expected future stream of payment of benefits, that will exceed the current outlay by an amount that will compensate the investor for the time the funds are committed for the excepted 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 bank in the uncertain and risky environment. It is very challenging task for commercial banks. So a bank has to be very cautions while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of it's invest able funds.

Investment management of a bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operations of the banks to be efficient and profitable by minimizing the interest risk.

James B. Bexley. Express his view as, "Investment policy fixes responsibilities for the investment disposition of the bank's assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets."

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converters profits as well as it should be secures and can be converters 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. Only the investment of the total deposit is not the good sign of banking development. In other word, to accumulate the deposit is not the only aim and function of the commercial banks. They have to invest such accumulated saving in a productive way. It the banks only receives the deposits and not invests, it in the form of loan, how it can pay interest on deposits, how it can pay salary to the staffs and raise surplus in order to declare dividends to shareholders. If the commercial banks do not invest the deposits, economic development of the country will be difficult. So the collection of deposits and extension of credit or investment of deposits of the commercial banks is necessary. Investment policy provides the banks several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

**Review of Unpublished Thesis**

Miss Kamala Ojha has drawn her conclusion in her thesis, "A study in priority sector investment in CBs ( with special reference to RBB)" (Ojha Kamala,1997) that the bank was unable to meet the requirement of 12% lending in the priority sectors set under NRB directives. During her study period, she further found low interest rate in priority sector but increasing trend of overdue and its misutilization. She has recommended improving supervision; evaluating borrower's paying capacity and reducing the over due through integrated program of priority sector loan.

Lila Prasad Ojha (2002) conducted a study on "Lending Practices: A Study of NABIL Bank Ltd., SCB Napal Ltd. and Himalayan Bank Ltd." with the objectives that follow:

- To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices
- To measure the bank's lending strength
- To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made on agriculture, priority and productive sector
- To measure the lending performances in quality, efficiency and its contribution in total income.

The study was conducted on the basis of secondary data. The research findings of the study were as follows:

The measurement of liquidity had revealed that the mean current ratios of all the three banks were not widely varied. All of them were capable in discharging their current liability by current assets. The measurement of lending strength in relative terms had revealed that the total liability to total assets of SCNBL had the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. HBL had high volume of saving and fixed deposits as compared to current deposits resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean. SCNBL's tendency to invest in government securities had resulted with the lowest ratio of loans and advances to total assets, whereas NABIL had the highest due to steady and high volume of loans and advances throughout the period of study. The ratio of investment-to-investment on loans and advances had measured the total portion of investment in total of investment and loans and advances. The mean ratio among the banks did not have deviate significantly. The loans and advances and investment to deposits ratio had shown that NABIL had deployed the highest proportion of its total deposits in earning activities. This was the indication of the fact that in fund mobilizing activities NABIL was significantly better. The absolute measures of lending strength had revealed that the mean volume of net assets and deposits is highest in SCBNL with moderate variation. The volume of net assets of HBL was the least due to the low share of capital, reserves and surplus in its capital mix. However, the volume contributed by HBL in case of loans and advances was highly appreciable compared to its net assets. The volume of loans and advances contributed by NABIL was the greatest in the five years of study period. The mean investment of NABIL was the highest, but the investment on government securities of SCBNL was the highest. The portfolio analysis had revealed that the flow of loans and advances in the agriculture sector was the lowest priority sector among these commercial banks. The contribution of all the banks in the industrial sector is the greatest that of SCBNL is the least. The lending in commercial purpose was the highest in case of NABIL and the least in case of SCBNL. SCBNL had highest contribution in service sector lending. It contributed 24.47 percent of its total credit in general use and social purpose. The measurement of efficiency in lending had revealed that the loan loss provision to loans and advances analysis showed that NABIL had the highest mean ratio. According to Nepal Rastra Bank directives, the loan loss provision indicates the provision made against the performing loan (pass loan and sub-standard loan) only. It indicated that the volume of sub-standard loan in the loan mix of NABIL was higher and the volume of non-performing loan in the mix of NABIL Bank Ltd. was likely to increase in the future. The mean ratio of interest income to total income had concluded that the contribution of interest income in total income was higher in case of HBL and lower in case of SCBNL. The interest expenses to total deposits ratio indicate that the cost of fund in HBL was the highest and that of SCBNL was the least. The total income to total assets ratio measured the earning power of each rupee employed by the bank. NABIL's ratio in this case was the best. The ratio of total income to total expense reflected the earning capacity of a rupee of expenses. The productivity of expenses in SCBNL was the best. The performance of SCBNL was significantly better than two banks in case of profitability. EPS was the highest in the case of SCBNL.

Samiksha Thapa (2002) conducted a study on "Investment Policy of Nepal Bangladesh Bank Ltd. and other joint venture banks (NABIL and Grindlays Bank Ltd.)." The objectives of the study were as follows:

- To examine the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparison with NABIL and NGBL
- To analyze the relationship between loan & advances and total investment with other financial variables of NB Bank and compare them with NABIL and NGBL
- To examine the fund mobilization of investment policy of NB Bank through off-balance sheet activities in comparison to the other two banks
- To study the various risks in investment of NB Bank in comparison with NABIL and NGBL
- To analyze the deposit utilization trend and its projection for next five years of NB Bank and compare them with NABIL and NGBL

The study was conducted by collecting the secondary data. The research findings of the study were as follows:

The liquidity position of NB Bank is comparatively better than that of NABIL and NGBL. NB Bank is not in better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL. NB Bank does not seem to follow any definite policy regarding the management of its assets. Profitability position of NB Bank is comparatively worse than that of NABIL and NGBL. NB Bank has maintained high growth rates in comparison to other banks though it is not successful to make enough investment. The position of NB Bank with regard to utilization of the fund to earn profit is not better to compare to NABIL and NGBL.

Indra Bahadur Bohara (2002) has conducted a research entitled "A comparative study on Investment policy of Joint Venture Banks and Finance Companies of Nepal".

The objectives of the study were as follows:

- To find out the liquidity position and profitability position of above mentioned JBV's in comparison with finance companies.
- To find out the relationship between profitability and asset structure.
- To analyze the deposit utilization trend and its future projections for next five years for JBV's and finance companies.
- To study the various risks in investment of JVB's in comparison with finance companies.
- To analyze the relationship between deposits and investment, deposit and loan and advances, net profit and total assets of JVB's in comparison with finance companies.
- To provide suggestion and recommendation on the basis of findings.

The major findings of the study were as follows:

- Liquidity position JVB's is comparatively better than that of finance companies. Finance companies have made nominal amount of investment in government securities.

- Finance companies have mobilized their deposits smoothly in comparison with JVB's. The average loan and advance to total deposit ratios of finance companies is higher than JVB's.
- Profitability position of JVB's except for BOKL is better than that of finance companies, but profitability position of finance companies in terms of return on total assets in better. Interest income in relation to proportion of total assets and operating income is higher in finance companies in comparison to JVB's.
- The growth ratio of deposits, net profit, loan and advances are higher than that of JVB's and are increasing every year, which indicates good performance of the finance companies.
- The risk ratios of finance companies are less variable than the JVB's. The interest risk ratios of finance companies are higher where as the capital risk ratios of JVB's are comparatively higher than that of finance companies.
- JVB's are in a better position in mobilizing deposits as loan and advances, but so far finance companies have been successful in utilizing their sources of funds and in their mobilization.

Shrijana Shrestha (2004) conducted a study on "Nepal Rastra Bank Guidelines on Investment Policy of Commercial Banks in Nepal (A Case Study of Nepal Investment Bank LTD)" with objectives presented below:

- To highlight the NRB directives regarding investment policy (loan, advances and investment)
- To analyze the liquidity of NIBL
- To find out the relationship between total deposit and loan and advances, total deposit and total investment
- To make the trend value analysis of deposit utilization and its projection for next five years

- To find out whether NRB guidelines are actually being implemented

The study was conducted on the basis of secondary data. The main findings of the study were as follows:

The bank was in good liquidity position to meet the daily cash requirements as it maintained the average cash and bank balance in respect to total deposit. The performance of NIBL regarding deposit collection, granting loan and advances and investment was quite satisfactory but did not seem to follow a definite policy. Nabil had not efficiently utilized its equity capital; hence, return on equity was not satisfactory because of the lack of around investment policy for mobilization of its equity capital. Interest earned to total operating income of NIBL was high. However, bank failed to maintain net profit. The analysis of coefficient of correlation showed that there was positive and significant relation between total deposits and loan and advances and current assets and current liabilities and loan loss provision and loans and advances, but there was negative and no significant relationship between outside assets and net profit. Trend analysis and projection for next five year of total deposits, loan and advances, investment and net profits were in increasing trend.

Karmacharya, M. N. (2005), in his thesis paper "A Study on the Deposit Mobilization by the Joint Venture Banks" has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. He has concluded that Nepal Bank's utilization side is weak as compare to the collection of resources. He suggested for extending its branches, so NBL's deposit collection and also long-term as well as short-term credit may increase. He has recommended not to consider security factor only but to provide loan to genuine projects without securing.

Jyoti Joshi (2005) conducted a study on "Investment Policy of Commercial Banks in Nepal: A Comparative Study of Everest Bank Limited with NABIL Bank Limited and Bank of Kathmandu" with the objectives that follow:

- To discuss fund mobilization and investment policy of EBL, NABIL and BOK Ltd.

- To evaluate the liquidity, efficiency and profitability and risk position
- To evaluate the growth ratios of loan & advances, total investments with other financial variables.
- To analyze the trend of deposits utilization towards total investment and loan & advances
- To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL, NABIL and BOK.

The secondary data were used to conduct the study. The research findings of the study were:

The liquidity position of the EBL was better than NABIL and BOK. EBL had the highest cash and bank balance to total deposits and cash and bank balance to current assets ratio. Nabil had the lowest liquidity position. EBL had good deposit collection and made enough investment on Government Securities, but it maintained a moderate investment policy on loans and advances. From the analysis of assets management or activity ratio, it was concluded that EBL was average, or in between NABIL and BOK. The total investment of EBL was in between the other two banks. In the study, loans and advances to total deposit was higher in BOK, but total investment to total deposit was higher in NABIL. Investment on shares and debentures to total working fund ratio was higher in BOK. However, the coefficient of variation was higher in EBL. In analysis of profitability, total interest earned to total outside assets of EBL is lowest at all. However, overall analysis of profitability ratios showed that EBL was an average in comparison to other compared banks i.e., NABIL and BOK. From the viewpoint of risk ratio, EBL had higher capital risk ratio, but average of credit risk ratio of NABIL and BOK.

Saju Shrestha, ƒ2007) conducted a study on "A Comparative Analysis on investment performance of commercial banks in Nepal" with the following objectives:

- To analyze the investment activities and fund mobilization with respect to fund based on-balance sheet transactions and fee based off-balance sheet transactions
- To study the asset utilization system, profitability and risk position of commercial banks under study
- To assess the deposit utilization trends and its projection for the future
- To evaluate the growth ratios of loan and advance and total investment and respective growth rate of total deposit and net profit
- To appraise the suggestion on the basis of findings for further growth of the banks under study

The study was conducted on the basis of secondary data. The research findings of the study were as follows:

The liquidity position of NIBL was stronger than NABIL and HBL. At the same time, liquidity position of NIBL was highly fluctuating, which showed that NIBL bore higher risk than other two banks. NIBL had the least investment in Government Securities, which considered the least risky asset. From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding asset management and deposit mobilization. NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor. In the profitability analysis, none of the three banks' profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position. From the risk point of view, NABIL and NIBL were facing higher risk than HBL, but the risk level of all three banks seemed almost the same. From the analysis of growth ratios, NIBL's collection of deposit, granting of loans and advances and net profit were better but in terms of investment, HBL is better. The coefficient of correlation analysis between different variables of

NABIL, NIBL and HBL revealed that NABIL was weaker regarding mobilization of deposits as loans and advances and NIBL was performing extremely well regarding earning profits from outside assets. From the trend analysis study, it was found that all banks were mobilizing their total deposits into loans and advances in increasing trend, which was the indication of efficient mobilization.

Sindhu Dhakal ƒ2008) conducted a study on "Investment Policy of Commercial Banks in Nepal" with the objectives that follow:

- To find out the relationships between total investment, loan and advances, deposit, net profit and outside assets
- To identify the investment priority sectors of sampled commercial banks
- To assess the impact of investment on profitability
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks
- To provide suggestions and possible guidelines to improve investment policy and its problems

The study was conducted based on the primary and secondary data. The research findings of the study were the following:

The liquidity position of Everest Bank Ltd. (EBL) was comparatively better than that of Nabil Bank Ltd. (NABIL) and Bank of Kathmandu Ltd. (BOK). All the three banks had met the normal standard current asset ratio to meet the short-term obligations of their customers. EBL had invested the most in Government Securities, followed by BOK and NABIL. BOK had mobilized a huge sum its funds to earn the profit. From the analysis of assets management ratio, EBL was in better position than NABIL and BOK. The loans and advances to total deposit ratio, loan and advances to total working fund ratio of EBL lied in between those of NABIL and BOK. EBL had invested the highest portion of its total working fund on government securities as compared to

NABIL and BOK. Investment on shares and debentures to total working fund ratio was higher in BOK. Overall analysis of profitability ratios showed that EBL was on an average profitable in comparison to other bank i.e. NABIL and BOK. The return on loan and advances ratio and return on assets of EBL was lowest of all. The degree of risk was average on EBL. EBL had shown its good performance by increasing earnings by providing loan to clients. The trend of the total investment, total deposit, loan and advances and net profit of EBL showed better position than that of NABIL and BOK.

Srijana Maharjan (2008) "Deposit Mobilization of Commercial Banks in Nepal"**.** with the objectives that follow:

The main objectives of the study are:

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

The study was conducted based on the primary and secondary data. The research findings of the study were the following:

The cash and bank balance to total deposit ratio of HBL is 7.79 percent in an average, SBL is 7.65 percent in an average as well as NBL has 5.68 percent and SCBNL has 7.42 percent. The average ratio of HBL is higher than SBL, NBL and SCBNL. The ratios of the banks are found to be in fluctuating.

The Loan and Advances to Total Deposit ratio of HBL is 52.77 percent in an average, SBL is 114.72 percent in an average as well as 64.07 percent in an average for NBL and 12.75 percent in an average for SCBNL. The ratios of the banks are found to be in fluctuating.

The Total Investment to Total Deposit ratio of HBL is 37.76 percent in an average and SBL is 9.11 percent in an average as well as NABIL has 37.04 percent in an average and SCBNL has 53.79 percent in an average. The ratios of the banks are found to be in fluctuating.

The Investment on Shares and Debentures to Total Working Fund ratio of HBL is 0.13 percent and for SBL is 0.04 percent in an average as well as 5.71 percent in an average for NBL and 31.87 percent in an average for SCBNL.

The Liquidity Risk ratio of HBL is 7.79 percent in an average and for SBL is 7.65 percent in an average as well as 85.90 percent in an average for NBL and 80.36 percent in an average for SCBNL.

The calculation of correlation coefficient between deposit and loan and advance is 0.96, shows the positive correlation for HBL, SBL has the perfectively positive correlation, NABIL has positive correlation coefficient and SCBNL has also positive correlation coefficient which is 0.828 between deposit and loan and advance.

The calculation of correlation coefficient between deposit and total investment is 0.762, shows the positive correlation for HBL and at the same time, SBL has the positive correlation as well as NABIL and SCBNL are also in positive correlation between deposit and total investment.

## 2.6 Research Gap

Deposit & Investment in different sectors is made on the basis of the directives and instructions of Nepal Rastra Bank as well as the investment policy and guidelines of the concerned commercial bank itself. Commercial banks should follow these directives and circulars. Furthermore, their own investment guidelines and policies should be in line with NRB directives and circulars. Therefore, the up to date study over the change of time frame has been a major concern for the researcher, concerned organization as well as the banking industry as a whole. This study covers the more recent financial data, NRB guidelines and instructions than those of studies previously conducted.

Portfolio management is the major part of the bank's investment policy and it is the major concern of stakeholders to know the portfolio behaviors of the bank. To reduce the default risk of credit, there should be the optimum diversification of loan and advance. This study puts its effort to find out the proportion to total loan and advances of the bank disbursed to different sectors of economy and analysis the diversification of its investment.

Not much more research study has been conducted in this topic. A very few study based on only one bank has been conducted before 2003, but this study is based on comparative analysis of two joint venture listed commercial banks namely NABIL and SCBNL up to the financial year 2009/2010. So, this research work is very much centered to identify responsible causes, to analyze them and recommend improvement measures for the betterment of the banks under study and to analyze the investment position of the two leading banks.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## Introduction

"Research Methodology is a way to systematically solve about the research problem." In other words, research methodology describes the method and process applied in the entire aspect of the study. Methodology refers to the various sequential steps under take by a researcher in studying the problems with certain objectives in view. The basic objective of the present research is to highlight the current position of investment and deposit policy of commercial bank of Nepal. I have selected two commercial banks for the purpose of my research work, which are NABIL and SCBNL. This study has been based on primary & secondary sources of data. The research methodology is followed to achieve the basic goal and objective of this study. The following methodology has been adopted in this study.

### Research Design

Research design is a purpose scheme of action proposed to be carried out in a sequence during the process of research focusing on the management problem to be tackled. It must be a scheme of problem solving through proper analysis, for which systematic arrangement of managerial efforts to investigate the problem is necessary. It defines task of researcher from identifying a managerial problem and problem area to report writing with the help of collection, tabulation analysis and interpretation of data.

"A researcher design is the management of conditions for collecting and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure."

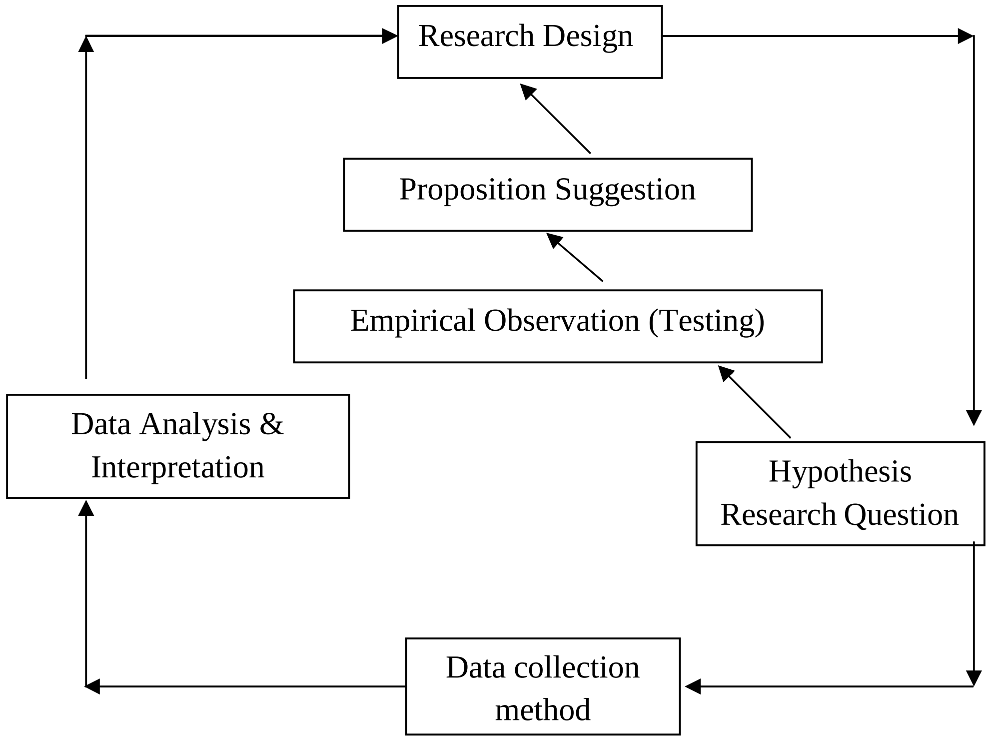
A research design is a plan of action to be carried out in connection with a research project. It is, however, not an unbreakable rule, nor a hard and fast strategy. Research design helps the research to control the experimental extraneous and error variance of the particular research problem under the study topic. In this study the descriptive and analytical research design has been followed to analyze the deposits and investment policy of the commercial banks in Nepal.

As a matter of fact, research design must include all the aspect of a research project including formulation of scheme for testing of hypothesis and drawing logical conclusion.

Goode and Hatt have, however emphasized about drawing logical conclusion;" A basic aspect of research design therefore is setting up the research so as to allow logical conclusions to be drawn".

**Figure No. 3.1**

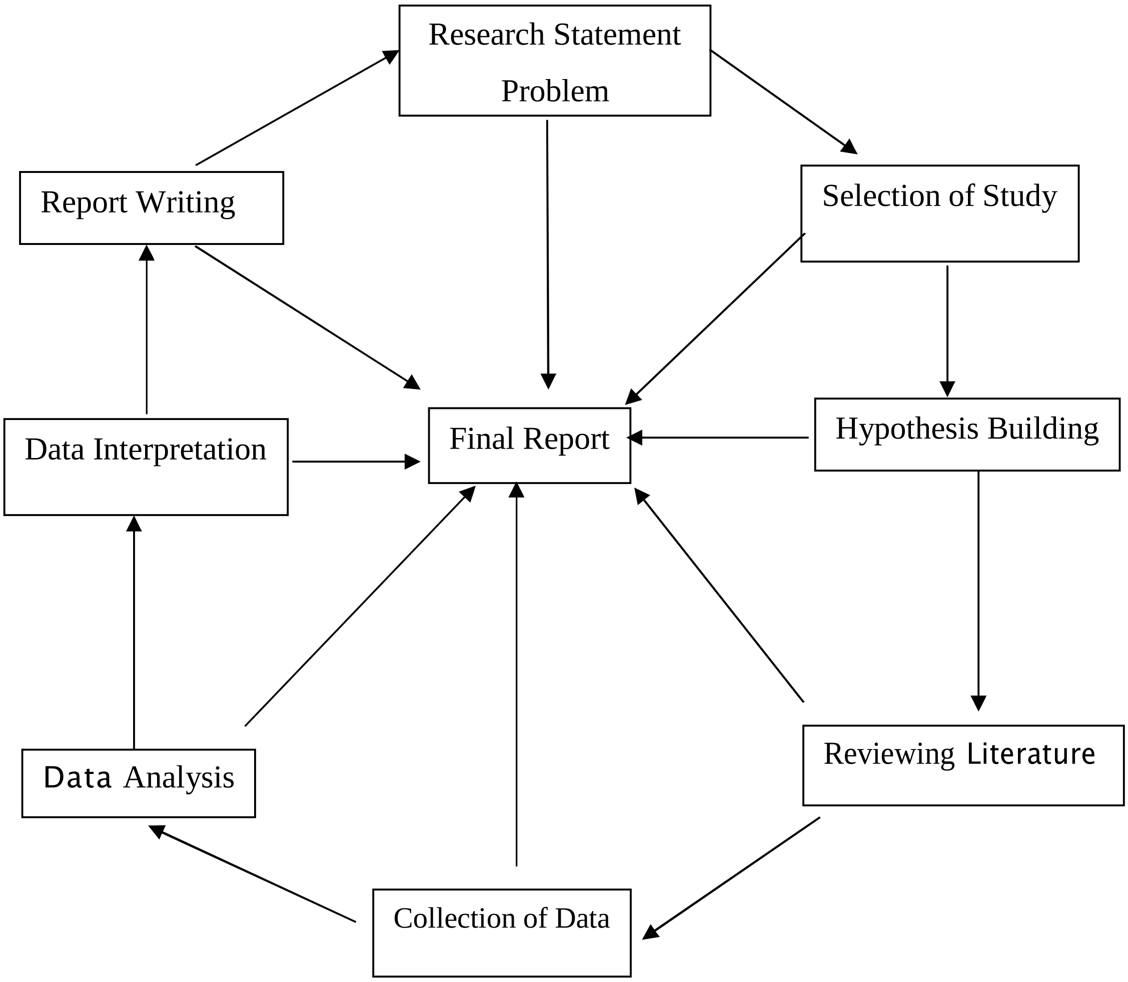
**Research Design**




*Source: Goode & Hatt*

**Figure No. 3.2**

**Research Process**




**Population and Sample**

To get the information about deposit and investment policy of commercial banks in Nepal, out of 27 banks (Population Size) only 2 CBs (Sample Size) are taken into consideration as:

**1.** Standard Chartered Bank Nepal Limited (SCBNL**)**

2. NABIL Bank Limited (NABIL)

Here,

Population Size (N) = 27

Sample Size (N) = 2

$\therefore$ Sample Percentage= $\frac{SampleSize}{PouplationSize} | 100 \text{ X } 7.40\%$

## Source of Data Collection

The researcher must decide about the use of primary data at the outset in a research. In this fieldwork report, the investigator has mostly used secondary method for data collection and also used primary data.

### Primary Data Collection

Observation Method**,** Interview Method, Information through corresponds.

### Secondary Data Collection

Annual reports, booklets published by the concerned organization, books and other publication as secondary source are collected for analysis.

## Data Processing

Numbers of Tables, essentials for the study have been prepared with the help of structural questionnaire and the secondary data given by NABIL and SCBNL. Tables have prepared according to the nature of data, which are suitable for the discussion, and analysis of the problem.

### Methods & tools of data analysis

The collected data are analyzed by using different statistical and financial tools. The analysis of data will be done according to the pattern of data available. Wide varieties of methods can be applied according to reliability and consistency of data. Especially the following tools and models will be used to analyze the variables.

Presentation and analysis of the data is the core of each and every research work. This study requires some financial and statistical tools to accomplish the objective of the study. The financial and statistical tools are most reliable. In this study various financial, statistical and accounting tools have been used. These tools make the analysis more effective, convenience, reliable and authentic.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the certain goals.

1. Financial Tools
2. Statistical Tools

**Financial Tools**

Financial tools basically help to identify the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account.

- **Ratio Analysis**

Ratio analysis is the powerful tool of financial analysis. A ratio is defined as the indicated quotient of two mathematical expressions the relationship between two or more things. (Merriam, 1975, 958) In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. An accounting figure conveys meaning when it is related to some relevant information. (Pandey, 1975, 104)

"A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years."

Thus, ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgment. Even though there are various types of ratios to analyze and interpret the financial statement, only six types of ratios have been taken in this study, which are related to fund mobilization of the banks. They are presented below:

**A. Liquidity Ratios**

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

"Liquidity ratios examine the adequacy of funds, the solvency of the firm's ability to pay its obligation when due." (Hampton, 1995, 139) Various types of liquidity ratios are applied in these studies, which are explained below:

**i) Cash and Bank Balance to Total Deposit**

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

$$Cash and\ Bank\ Balance X \frac{Cash and\ Bank\ Balance}{Total\ Deposit}$$

Where, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposits consist of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

**ii) Cash and Bank Balance to Current Assets Ratio**

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

$$Cash and\ Bank\ Balance to\ Current\ Assets\ Ratio X \frac{Cash and\ Bank\ Balance}{Current\ Assets}$$

Hence, cash and bank balance includes cash in hand, foreign cash and foreign banks.

**iii) Investment on Government Securities to Current Assets Ratio**

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. It can be mentioned as:

$$Investment on\ Government Securities to\ Current\ \ Assets\ \mathrm{X}\ \frac{Investment on\ Government Securities}{Current\ Assets}$$

Where, Investment on government securities involves treasury bills and development bonds etc.

**B. Assets Management Ratios**

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer. (Brigham, 1992, 74).

In this study this ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to fund mobilization are calculated under asset management ratio and interpretation is made by these calculations.

**i) Loan and Advances to Total Deposit Ratio**

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better utilization of total deposits. This ratio can be obtained dividing loan and advances by total deposits, which can be shown as,

$$Loan\ and\ \ Advances\ to\ Total\ \ Deposit\ \mathrm{X}\frac{Total\ \ Loan\ and\ \ Advance}{Total Deposit}$$

**ii) Total Investment to Total Deposit Ratio**

Investment is one of the major sources of earning of profit. This ratio indicates how properly firm's deposits have been invested on government securities and shares and debentures of other companies. This ratio is computed by using following formula:

$$\text{Total Investment to Total Deposit} \ \text{X} \ \frac{\text{Total Investment}}{\text{Total Deposit}}$$

Where, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

**iii) Loan and Advances to Total Working Fund Ratio**

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund. That is formulized as,

$$\text{Loan and Advances to Total Working Fund} \ \text{X} \ \frac{\text{Total Loan and Advances}}{\text{Total Working Fund}}$$

Where, total working fund includes total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e. letter of credit, letter of guarantee etc.

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

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by:

$$Investment on\ Government Securities to TWF\ X \frac{Investment on Government Securities}{Total Working\ Fund}$$

Where, investment on government securities includes investment on debentures, bonds and shares of other companies.

**v) Investment on Shares and Debentures to Total Working Fund Ratio**

Investment on shares and debentures to total working fund ratio shows the investment of banks on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. It is calculated as:

$$Investment on\ Shares and\ Debentures to TWF\ X \frac{Investment on\ Shares and\ Debentrues}{Total Working\ Fund}$$

Where, total investment includes investment on government securities, investment on debenture and bonds, shares of other companies.

**C. Profitability Ratios**

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

**i) Return on Loan and Advances Ratio**

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

$$\text{Return on Loan and Advances} = \frac{\text{Net Profit (Loss)}}{\text{Loan and Advances}}$$

**ii) Return on Total Working Fund Ratio**

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return. Maximizing taxes, this in the legal options available will also improve the return. It is computed as:

$$\text{Return on Total Working Fund} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

**iii) Total Interest Earned to Total Working Fund Ratio**

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

$$\text{Total Interest Earned to Total Working Fund} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

**iii) Total Interest paid to Total Working Fund Ratio**

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated as:

$$\text{Total Interest Paid to Total Working Fund} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

**D. Risk Ratios**

Generally, risk means uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

**i) Liquidity Risk Ratio**

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need.

This ratio is low if funds are kept idle as cash and bank balance but this reduces profitability. When the bank makes loans its profitability increases and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated by dividing cash and bank balance to total deposit.

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

**ii) Credit Risk Ratio**

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio shows the proportion of non performing assets in the total investment plus loan and advances of a bank. It is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment} + \text{Total Loan and Advances}}{\text{Total Assets}}$$

**E. Growth Ratios**

The growth ratios represent how well the commercial banks are maintaining their economic and financial position. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected banks the following growth ratios are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms. Growth rates of Sector wise investment, priority & deprived sector investment have been calculated of banks under study.

**1.** Growth ratio of total investment

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

The respective growth ratios show the positive or negative growth rate in their respective components.

## Statistical Tools

In this study, some important statistical tools have been used to present and analyze the data for achieving the objectives. Using various statistical tools, which are as follows, will draw out the relationship between different variables related to this study.

### 1. Mean $(\bar{X})$

Since, huge and unwieldy masses of data are confusing and difficult to remember, so we need a unique value representing them the mean (averages) are the measures which condense a huge of data into single value representing the whole data, Simply, mean is the sum of all the observations divided by the number of observations. The equation for calculating the mean value is:

$$(\bar{X}) = \frac{X_1 + X_2 + X_3 + \ldots\ldots\ldots\ldots\ldots X_n}{n} \qquad = \frac{\sum X}{n}$$

Where,

$(\sum X)$ = Sum of the observation

n = No. of observation (year)

### 2. Standard Deviation

It gives the idea of the homogeneity or heterogeneity of the distribution and measures the variation of the data. It is defined as positive square root of the arithmetic mean of the square of the given distribution from their arithmetic mean and donated by Greek alphabet small sigma (σ). The equation for calculating standard deviation is:

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

### 3. Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater risk relative to the average.

Mathematically,

$$C.V. = \frac{\exists}{z} \Big| 100\% \Big| \varepsilon \Big| \text{, where}$$

**C.V. = Coefficient of Variation**

∃= Standard deviation, and,

$\bar{X}$= Arithmetic average

### 4. Co-efficient of Correlation

Correlation means the relationship between two or more variables such that the change in one tends to be accompanied by the change in other. The measure of correlation calls the correlation co-efficient. Correlation Co-efficient ( r ) has been calculated by using the formula.

Where,

$$Y = Y \, Z \bar{Y}$$

$$r_{xy} \, X \frac{XY}{\sqrt{X^2}\sqrt{Y^2}} \qquad x = X \, Z \bar{X}$$

This formula is all called Product moment formula.

Where,

$r_{xy}$ X Simple correlation of co-efficient between two variables ‘X’ and ‘Y’

$x = (X \, Z \bar{X})$

$Y = (Y \, Z \bar{Y})$

## 5. Regression

Regression Analysis is one of the most powerful tools of statistics which being used in the determining the strength of relationship between two variables. For applying the regression equation, the following terms is necessary to understand.

### a) Regression constant 'a'

Dependent variable when independent variable (s) is zero. In other words, it is better to understand that 'a' constant indicates the mean or average effect on dependent variable of all the variables omitted from the model.

### b) Regression co-efficient 'b'

The regression co-efficient of each independent variables indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all other independent variables in the regression model. In other words, the regression on co-efficient describe how changes in dependent variable effect the value of dependent variables estimate.

The simple regression equation of 'y' on 'x' is expressed as;

$Y = a + bx$

Where,

a = Numerical constant which determine the distance of the filled line directly above or below the origin (i.e. y intercept)

b = Numerical constant which determine the changes in 'Y' per unit change in 'x' (i.e. slope of the line)

Y = Dependent variable

X = Independent variable

The equation of multiple regression equation is expressed as,

$$Y = a \Gamma b_1 x_1 \Gamma b_2 x_2 \Gamma .................b_n \; x_n$$

Where,

a = Intercept (Regression Constant) b

= Regression co-efficient of 1st, 2nd, 3rd variables respectively.

**6. Analysis of the Time Series**

Under this topic we analyze and interpret the trend of deposits NABIL Bank Limited & SCBNL, that helps to make forecasting for next five years. The following trend value analyses have been used in this study.

i. Trend analysis of total deposit

$Y_C$ Xa Γbx

To determine the trend of investment and deposit.

r = Correlation coefficient

n = Number of observations

# CHAPTER FOUR

## PRESENTATION & ANALYSIS OF DATA

Effective research toward accelerated economic growth in Nepal affected by several constraints both external and internal. One of the internal constraints being the scarcity of domestic capital relative to the size of investment required for comprehensive development program. The creation of efficient monetary arrangement and reformation of financial system of the country can make an important contribution to mobilize more domestic resources to finance the program of economic development. So much emphasis is therefore being laid thesis days on the need to enlarge the activities of the financial intermediary in the economy and make them the prime determinants of the saving investment process.

Commercial Banks, being of the financial inter-mediates have played vital role in mobilizing and utilizing saving to the investment. Since other non-banking financial institutions are still less developed in mobilizing and utilizing. Although there is distinctly variation in structure, rules and regulations among banks, their deposit liabilities in recent years have increased many times the amount of their capital accounts. So that over 90% of the assets collected by CBs are financed by resources obtained from their depositors. So in our country also resources of CBs refer to the deposit side. In our country too CBs i.e. SCBNL and NABIL conducts mobilize their resources mainly with the help of deposits amount. So that the researched refer deposit as resources. Thus, the main objectives of CBs are to accumulate and disburse resources and utilize them on the best way.

### Liquidity Ratios

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

**Cash and Bank Balance to Total Deposit**

This ratio is computed dividing the amount of cash and bank balance by the total deposits.

**Table No. 4.1**

**Cash and Bank Balance to Total Deposit**

***(Ratio in %)***

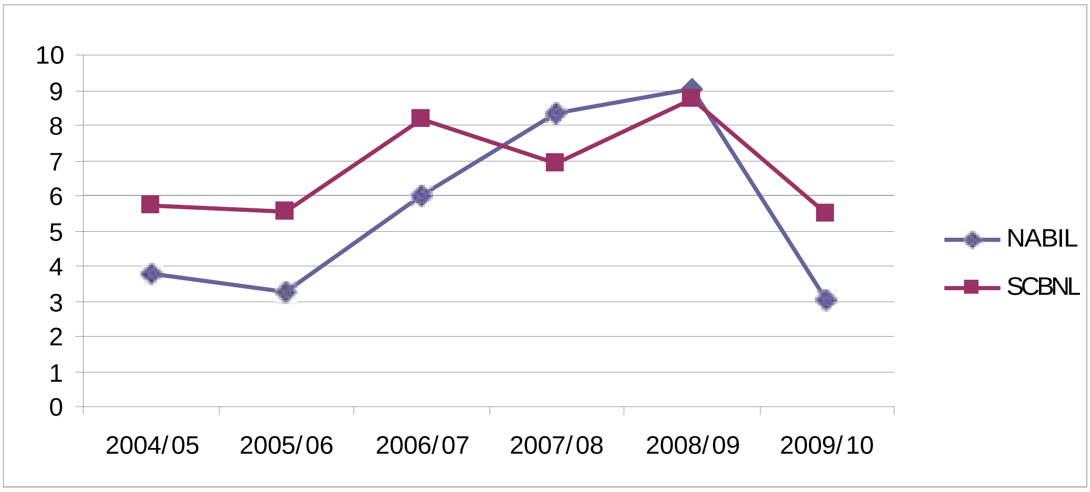
| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 3.77 | 5.74 |
| 2005/06 | 3.26 | 5.53 |
| 2006/07 | 6.00 | 8.20 |
| 2007/08 | 8.37 | 6.90 |
| 2008/09 | 9.03 | 8.75 |
| 2009/10 | 3.02 | 5.48 |
| **Mean** | **5.58** | **6.77** |

*Source: Annex B.5, B.6*

From the table 4.1 it is depicted that cash and bank balance to total deposit ratio of period under study NABIL has 5.58 percent and SCBNL has 6.77 percent. The average ratio of SCBNL is higher than NABIL. The ratios of banks are found to be in fluctuating. The higher ratio is 9.03 percent in FY 2008/09 for NABIL and 8.75 percent in FY 2008/09 for SCBNL. These facts are shown in the figure

**Figure No. 4.1**

**Cash and Bank Balance to Total Deposit Ratio**




*Source: Table No. 4.1*

**Cash and Bank Balance to Current Assets Ratio**

This ratio is calculated dividing cash and bank balance by total current assets.

**Table No. 4.2**

**Cash and Bank Balance to Current Assets Ratio**

*(Ratio in %)*

| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 4.50 | 9.20 |
| 2005/06 | 3.98 | 9.95 |
| 2006/07 | 7.77 | 13.55 |
| 2007/08 | 10.04 | 10.61 |
| 2008/09 | 10.42 | 15.52 |
| 2009/10 | 3.71 | 9.86 |
| **Mean** | **6.74** | **11.45** |

*Source: Annex B.5, B.6*

From the table 4.2 it is depicted that Cash and Bank Balance to Current Assets ratio of NABIL has 7.31 percent average in the period under study whereas that of SCBNL is 11.45 percent. The average ratio of SCBNL is higher than NABIL. The higher ratio is 10.42 percent in FY 2008/09 for NABIL, 15.52 percent in FY 2008/09 for SCBNL. These facts are shown in the figure 4.2 to make easier to understand.

**Figure No. 4.2**

**Cash and Bank Balance to Current Assets Ratio**


*Source: Table No. 4.2*

**Investment on Government Securities to Current Assets Ratio**

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds.

**Table No. 4.3**

**Investment on Government Securities to Current Assets Ratio**

*(Ratio in %)*

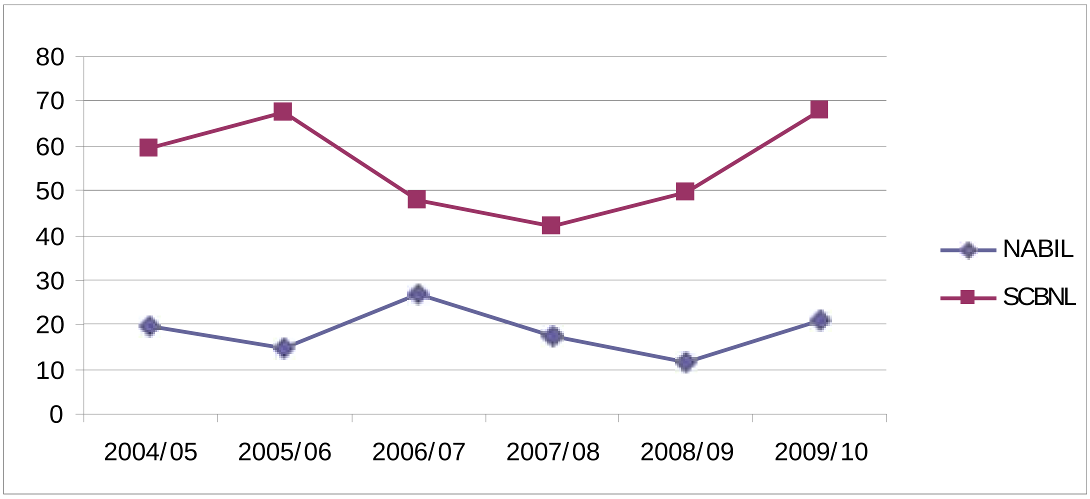
| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 19.46 | 59.63 |
| 2005/06 | 14.54 | 67.39 |
| 2006/07 | 26.68 | 47.65 |
| 2007/08 | 17.47 | 42.13 |
| 2008/09 | 11.45 | 49.46 |
| 2009/10 | 21.07 | 68.07 |
| **Mean** | **18.45** | **52.72** |

*Source: Annex B.5, B.6*

From the table 4.3 it is depicted that Investment on Government Securities to Current Assets ratio of NABIL is 18.45 percent in an average in the period under study whereas 52.72 percent in an average SCBNL. The average ratio of SCBNL is higher than NABIL. The ratios of the banks are found to be in fluctuating. The higher ratio is 26.68 percent in FY 2006/07 for NABIL and 68.07 percent in FY 2009/10 for SCBNL. The lowest ratio is 14.54 percent in FY 2005/06 for NABIL & 42.13 percent for SCBNL. These facts are shown in the figure 4.3 to make easier to understand.

**Figure No. 4.3**

**Investment on Government Securities to Current Assets Ratio**




*Source: Table No. 4.3*

## Assets Management Ratios

The asset management ratios, measures how effectively the firm is managing its assets. In this study this ratio is used to indicate how efficiently the selected insurance companies have arranged and invested their limited resources. The following financial ratios related to deposit mobilization are calculated under asset management ratio and interpretation is made by these calculations.

## Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. This ratio can be obtained dividing loan and advances by total deposits.

**Table No. 4.4**
**Loan and Advances to Total Deposit Ratio**

*(Ratio in %)*

| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 71.26 | 42.05 |
| 2005/06 | 66.79 | 38.75 |
| 2006/07 | 66.60 | 42.61 |
| 2007/08 | 66.94 | 46.12 |
| 2008/09 | 73.87 | 38.14 |
| 2009/10 | 69.53 | 45.35 |
| **Mean** | **69.17** | **42.17** |

*Source: Annex B.5, B.6*

From the table 4.4 it is depicted that Loan and Advances to Total Deposit ratio of NABIL is 69.17 percent in an average in the period under study whereas that of SCBNL is 42.17 percent. The average ratio of NABIL is higher than SCBNL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 73.87 percent in FY 2008/09 for NABIL and 46.12 percent in FY 2007/08 for SCBNL and the lowest ratio is 66.60 percent in FY 2006/07 for NABIL and 38.14 in FY 2008/09 for SCBNL. These facts are shown in the figure 4.4 to make easier to understand.

**Figure No. 4.4**

**Loan and Advances to Total Deposit Ratio**


*Source: Table No. 4.4*

### Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning of profit. This ratio indicates how properly firm's total deposits have been invested on different sectors of other companies.

**Table No. 4.5**
**Total Investment to Total Deposit Ratio**

**(Ratio in %)**

| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 28.78 | 50.11 |
| 2005/06 | 31.93 | 55.71 |
| 2006/07 | 38.32 | 54.99 |
| 2007/08 | 31.14 | 46.74 |
| 2008/09 | 28.99 | 38.13 |
| 2009/10 | 29.46 | 56.41 |
| **Mean** | **31.4** | **50.35** |

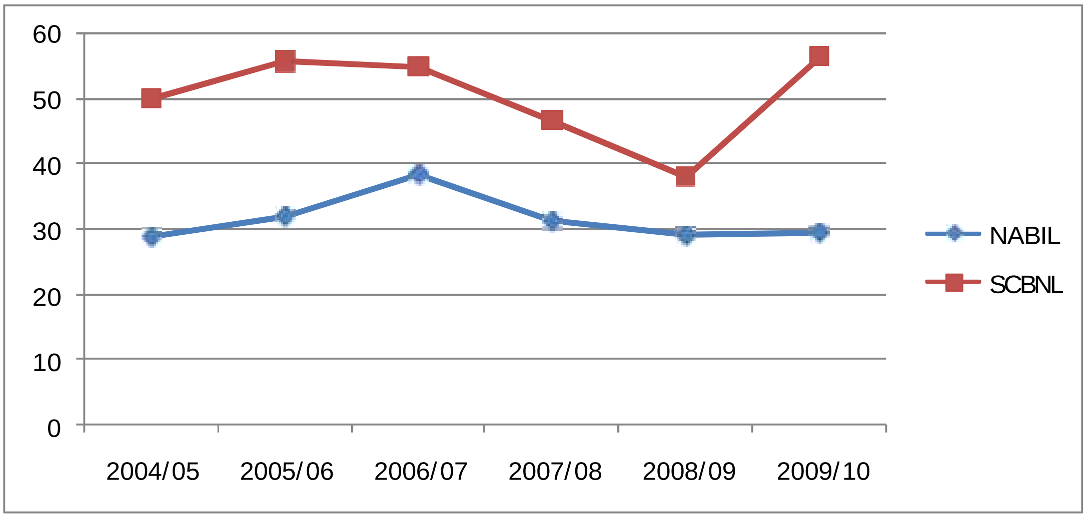
*Source: Annex B.5, B.6*

From the table 4.5 it is depicted that Total Investment to Total Deposit ratio of NABIL is 31.4 percent in an average in the period under study whereas that of SCBNL is 50.35 percent in an average. The average ratio of SCBNL is higher than NABIL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 38.32 percent in FY 2006/07 for NABIL and 56.41 percent in FY 2009/10 for SCBNL and the lowest ratio is 28.78 percent in FY 2004/05 for NABIL and 38.13 percent in FY 2060/061 for SCBNL. These facts are shown in the figure 4.5 to make easier to understand.

**Figure No. 4.5**

**Total Investment to Total Deposit Ratio**




*Source: Table No. 4.5*

**Loan and Advances to Total Working Fund Ratio**

This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund.

**Table No. 4.6**
**Loan and Advances to Total Working Fund Ratio**

*(Ratio in %)*

| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 62.04 | 37.39 |
| 2005/06 | 57.87 | 34.67 |
| 2006/07 | 57.04 | 36.73 |
| 2007/08 | 57.54 | 41.15 |
| 2008/09 | 62.90 | 34.14 |
| 2009/10 | 61.88 | 39.68 |
| **Mean** | **59.88** | **37.29** |

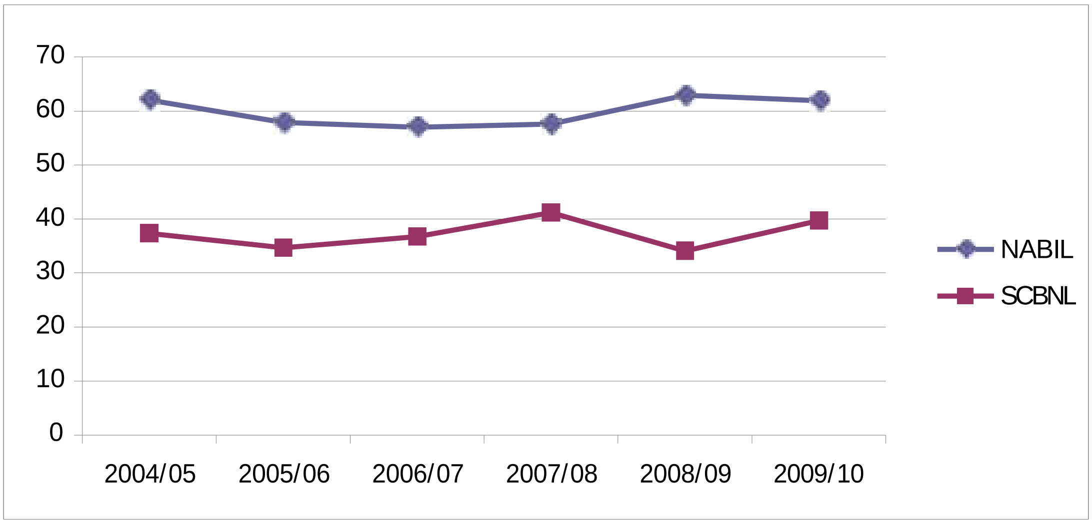
*Source: Annex B.5, B.6*

From the table 4.6 it is depicted that Loan and Advances to Total Working Fund ratio of NABIL is 59.88 percent in an average in the period under study whereas that of SCBNL is 37.29 percent in an average. The average ratio of NABIL is higher than SCBNL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 62.90 percent in FY 2008/09 for NABIL and 41.15 in FY 2007/08 for SCBNL and the lowest ratio is 57.04 percent in FY 2006/07 for NABIL and 34.14 percent in FY 2008/09 for SCBNL. These facts are shown in the figure 4.6 to make easier to understand.

**Figure No. 4.6**

**Loan and Advances to Total Working Fund Ratio**




*Source: Table No. 4.6*

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

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage.

**Table No. 4.7**

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

*(Ratio in %)*

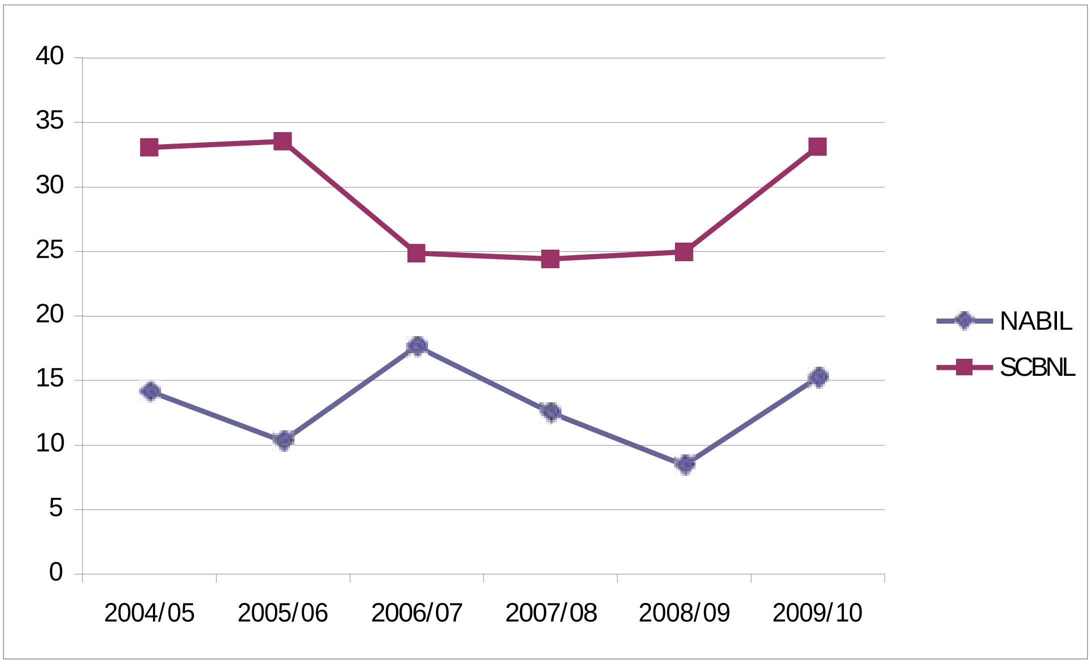
| Year | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 14.17 | 33.07 |
| 2005/06 | 10.31 | 33.54 |
| 2006/07 | 17.64 | 24.86 |
| 2007/08 | 12.51 | 24.41 |
| 2008/09 | 8.45 | 24.96 |
| 2009/10 | 15.23 | 33.13 |
| **Mean** | **13.05** | **29.00** |

*Source: Annex B.5, B.6*

From the table 4.7 it is depicted that Investment on Government Securities to Total Working Fund ratio of NABIL is 13.05 percent in an average in the period under study whereas that of SCBNL is 29.00 percent in an average. The average ratio of SCBNL is higher than NABIL. The ratios of the banks are found to be in fluctuating. The higher ratio is 17.64 percent in FY 2006/07 for NABIL, 33.54 percent in FY 2005/06 for SCBNL and the lowest ratio is 10.31 percent in FY 2005/06 for NABIL and 24.41 percent in FY 2007/08 for SCBNL. These facts are shown in the figure 4.7 to make easier to understand.

**Figure No. 4.7**

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




*Source: Table No. 4.7*

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

Investment on shares and debentures to total working fund ratio shows the investment of insurance companies on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund.

**Table No. 4.8**

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

*(Ratio in %)*

| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 10.90 | 11.48 |
| 2005/06 | 17.37 | 16.30 |
| 2006/07 | 15.22 | 22.54 |
| 2007/08 | 14.36 | 17.37 |
| 2008/09 | 16.34 | 25.61 |
| 2009/10 | 11.09 | 28.20 |
| **Mean** | **15.43** | **20.25** |

*Source: Annex B.5, B.6*

From the table 4.8 it is depicted that Investment on Shares and Debentures to Total Working Fund ratio of NABIL is 15.43 percent in an average in the period under study whereas 20.25 percent in an average for SCBNL. The average ratio of SCBNL is higher than NABIL. The ratios are found to be in fluctuating. The higher ratio is 17.37 percent in FY 2005/06 for NABIL and 28.20 percent in FY 2009/10 for SCBNL. These facts are shown in the figure 4.8 to make easier to understand.

**Figure No. 4.8**

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


*Source: Table No. 4.8*

## Profitability Ratios

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

### Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances.

**Table No. 4.9**
**Return on Loan and Advances Ratio**

*(Ratio in %)*

| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 4.91 | 6.59 |
| 2005/06 | 4.92 | 7.37 |
| 2006/07 | 4.34 | 6.59 |
| 2007/08 | 3.49 | 5.97 |
| 2008/09 | 2.35 | 7.49 |
| 2009/10 | 3.53 | 6.80 |
| **Mean** | **3.92** | **6.80** |

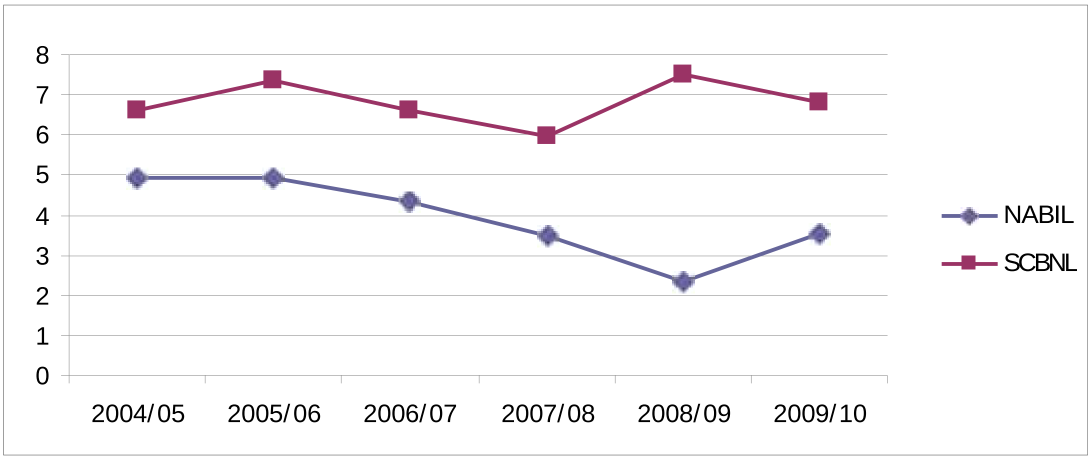
*Source: Annex B.5, B.6*

From the table 4.9 it is depicted that Return on Loan and Advances ratio of NABIL is 3.92 percent in an average in the period under study whereas that of SCBNL has 6.80 percent in an average. The average ratio of SCBNL is higher than NABIL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 4.92 percent in FY 2006/06 for NABIL and 7.49 percent in FY 2008/09 for SCBNL and the lowest ratio is 2.35 percent in FY 2008/09 for NABIL and 5.97 percentage in FY 2007/2008 for SCBNL. These facts are shown in the figure 4.9 to make easier to understand.

**Figure No. 4.9**

**Return on Loan and Advances Ratio**




*Source: Table No. 4.9*

**Return on Total Working Fund Ratio**

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return.

**Table No. 4.10**
**Return on Total Working Fund Ratio**

*(Ratio in %)*

| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 3.05 | 2.46 |
| 2005/06 | 2.84 | 2.56 |
| 2006/07 | 2.47 | 2.42 |
| 2007/08 | 2.01 | 2.46 |
| 2008/09 | 2.35 | 2.56 |
| 2009/10 | 2.18 | 2.70 |
| **Mean** | **2.48** | **2.53** |

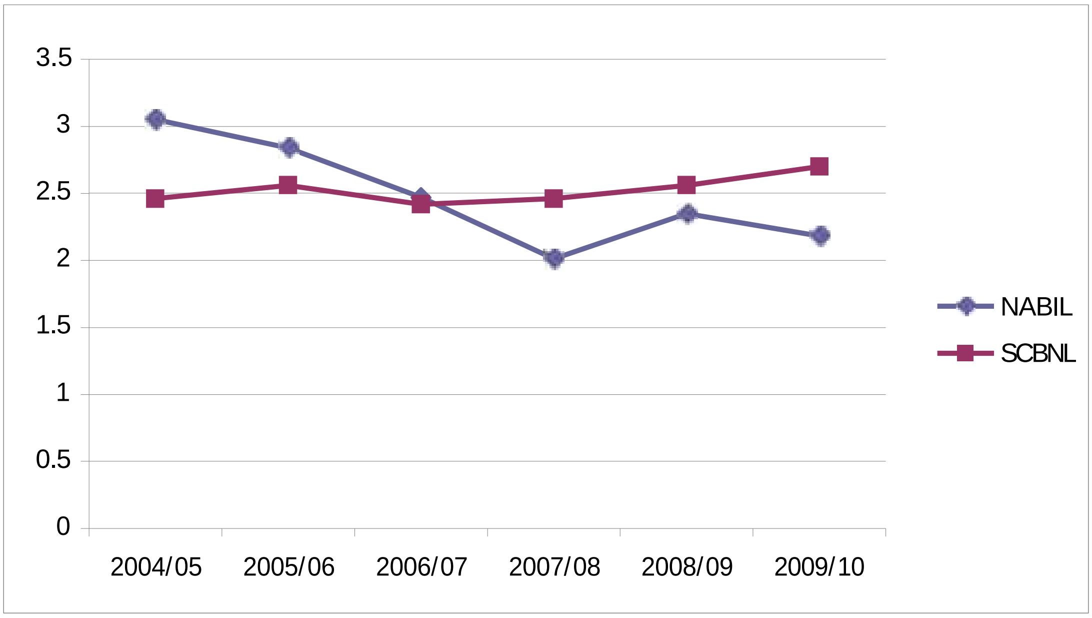
*Source: Annex B.5, B.6*

From the table 4.10 it is depicted that Return on Total Working Fund ratio of NABIL is 2.48 percent in an average in the period under study whereas that of SCBNL is 2.53 percent in an average. The average ratio of SCBNL is higher than NABIL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 3.05 percent in FY 2004/05 for NABIL and 2.70 percent in FY 2009/10 for SCBNL and the lowest ratio is 2.18 percent in FY 2009/10 for NABIL and 2.46 percent in FY 2004/05 & same percent in FY 2007/2008 for SCBNL. These facts are shown in the figure 4.10 to make easier to understand.

**Figure No. 4.10**

**Return on Total Working Fund Ratio**




*Source: Table No. 4.10*

**Total Interest Earned to Total Working Fund Ratio**

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund.

**Table No. 4.11**
**Total Interest Earned to Total Working Fund Ratio**

*(Ratio in %)*

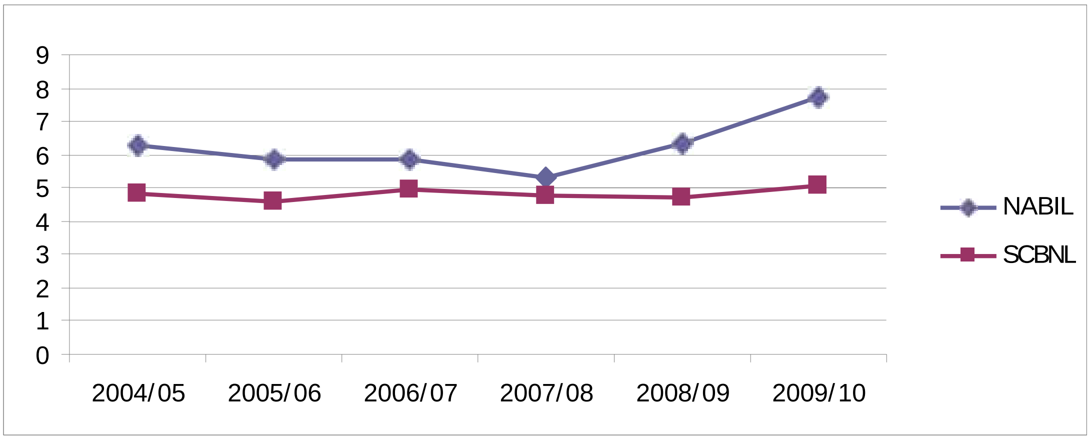
| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 6.26 | 4.86 |
| 2005/06 | 5.87 | 4.62 |
| 2006/07 | 5.83 | 4.94 |
| 2007/08 | 5.33 | 4.77 |
| 2008/09 | 6.34 | 4.71 |
| 2009/10 | 7.76 | 5.08 |
| **Mean** | **6.23** | **4.83** |

*Source: Annex B.5, B.6*

From the table 4.11 it is depicted that Return on Total Interest Earned to Total Working Fund ratio of SCBNL is 6.23 percent in an average in the period under study whereas that of SCBNL is 4.83 percent in an average. The average ratio of SCBNL is lower than NABIL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 7.76 percent in FY 2009/10 for NABIL and 5.08 percent in FY 2009/10 for SCBNL and the lowest ratio is 5.33 percent in FY 2007/08 for NABIL and 4.62 percent in FY 2005/06 for SCBNL. These facts are shown in the figure 4.11 to make easier to understand.

**Figure No. 4.11**
**Total Interest Earned to Total Working Fund Ratio**




*Source: Table No. 4.11*

### Total Interest paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa.

**Table No. 4.12**

**Total Interest paid to Total Working Fund Ratio**

*(Ratio in %)*

| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 1.43 | 1.17 |
| 2005/06 | 1.60 | 1.18 |
| 2006/07 | 2.04 | 1.44 |
| 2007/08 | 2.04 | 1.42 |
| 2008/09 | 2.63 | 1.36 |
| 2009/10 | 3.76 | 1.43 |
| **Mean** | **2.25** | **1.33** |

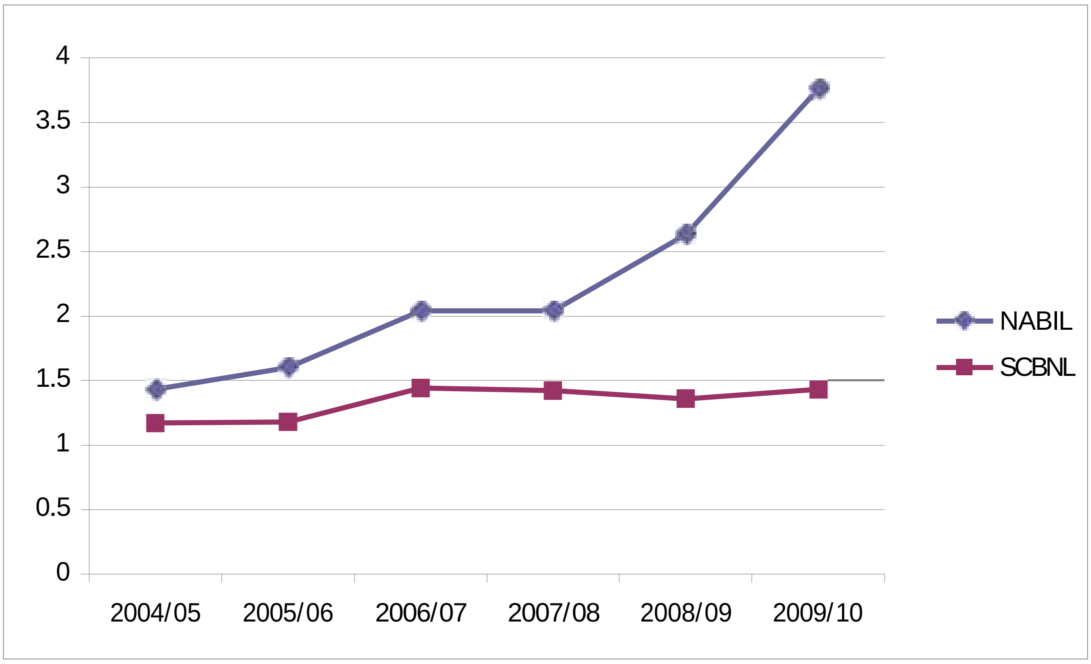
*Source: Annex B.5, B.6*

From the table 4.12 it is depicted that Total Interest paid to Total Working Fund ratio of NABIL is 2.25 percent in an average in the period under study whereas that of SCBNL is 1.33 percent in an average. The average ratio of NABIL is higher than ANBIL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 3.76 percent in FY 2009/10 for NABIL and 1.44 percent in FY 2006/07 for SCBNL and the lowest ratio is 1.43 percent in FY 2004/05 for NABIL and 1.17 percent in FY 2004/05 for SCBNL. These facts are shown in the figure 4.12 to make easier to understand.

**Figure No. 4.12**

**Total Interest paid to Total Working Fund Ratio**




*Source: Table No. 4.12*

## Risk Ratios

Generally, risk means uncertainty which lies in the business transaction of investment management. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

## Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is calculated by dividing cash and bank balance to total deposit.

**Table No. 4.13**

**Liquidity Risk Ratio**

*(Ratio in %)*

| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 3.77 | 5.74 |
| 2005/06 | 3.26 | 5.53 |
| 2006/07 | 6.00 | 8.20 |
| 2007/08 | 8.37 | 6.90 |
| 2008/09 | 9.03 | 8.75 |
| 2009/10 | 3.02 | 5.48 |
| **Mean** | **5.68** | **6.77** |

*Source: Annex B.5, B.6*

From the table 4.13 it is depicted that Liquidity Risk ratio of NABIL is 5.68 percent in an average in the period under study whereas that of SCBNL is 6.77 percent in an average. The average ratio of SCBNL is higher than NABIL. The ratios of the banks are found to be in fluctuating. The higher ratio is 9.03 percent in FY 2008/09 for NABIL and 8.75 percent in FY 2008/09 for SCBNL and the lowest ratio is 3.02 percent in FY 2009/10 for NABIL and 5.48 percent in FY 2009/2010 for SCBNL. These facts are shown in the figure 4.13 to make easier to understand.

**Figure No. 4.13**

**Liquidity Risk Ratio**


*Source: Table No. 4.13*

## Credit Risk Ratio

Generally credit risk ratio shows the proportion of non performing assets in the total investment plus loan and advances of a bank.

**Table No. 4.14**

**Credit Risk Ratio**

**(Ratio in %)**

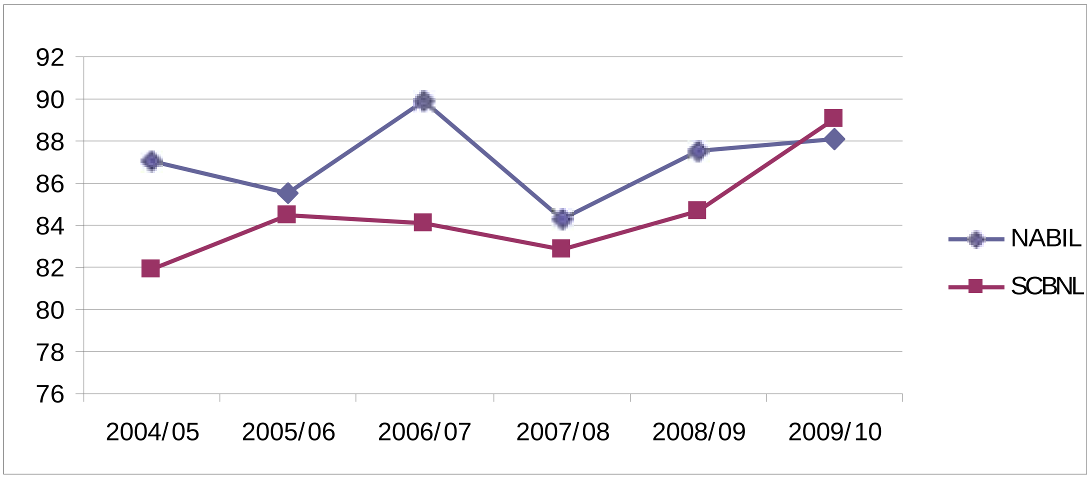
| Years | NABIL | SCBNL |
|---|---|---|
| 2004/05 | 87.09 | 81.93 |
| 2005/06 | 85.54 | 84.51 |
| 2006/07 | 89.86 | 84.12 |
| 2007/08 | 84.31 | 82.86 |
| 2008/09 | 87.57 | 84.65 |
| 2009/10 | 88.10 | 89.04 |
| **Mean** | **87.08** | **84.52** |

*Source: Annex B.5, B.6*

From the table 4.14 it is depicted that Credit Risk ratio of NABIL is 87.08 percent in an average in the period under study whereas that of SCBNL is 84.52 percent in an average. The average ratio of NABIL is higher than SCBNL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 89.86 percent in FY 2006/07 for NABIL and 89.04 percent in FY 2009/10 for SCBNL and the lowest ratio is 84.31 percent in FY 2007/08 for NABIL, 84.12 percent in FY 2006/07 for SCBNL. These facts are shown in the figure 4.14 to make easier to understand.

**Figure No. 4.14**
**Credit Risk Ratio**




*Source: Table No. 4.14*

**Deposit Position of Commercial Bank**

Deposits are the main sources to meet the growing demand assistance. The existence of CBs basically depends upon the mobilization of deposit. The CBs may function only when they have adequate deposit. Higher the volume of the deposit, higher will be the volume of lending and investment which again generate higher volume of profit. So CBs first of all tries to mobilize as much deposits as possible.

**Table No. 4.15**
**Deposit Position of SCBNL** *(Rs. In 000)*

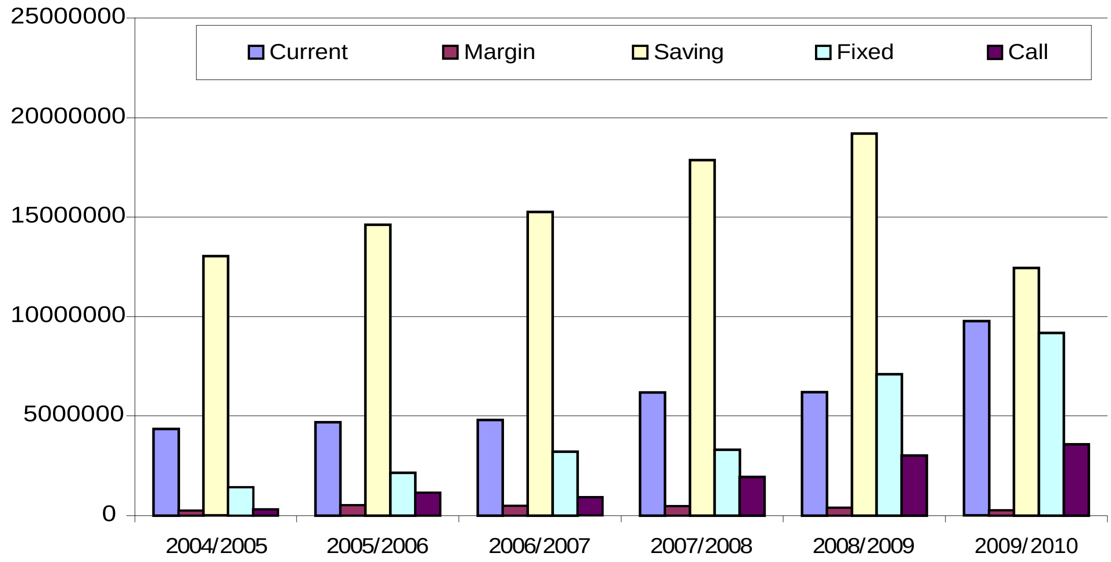
| FY | Current | Margin | Saving | Fixed | Call | Other | TD | Change % |
|---|---|---|---|---|---|---|---|---|
| 2004/05 | 4356337 | 236579 | 13030929 | 1416382 | 294865 | - | 19335094 | - |
| 2005/06 | 4681937 | 509421 | 14597674 | 2136307 | 1135691 | - | 23061032 | 19.27% |
| 2006/07 | 4794534 | 486101 | 15244384 | 3196489 | 925510 | - | 24647020 | 6.88% |
| 2007/08 | 6174560 | 474043 | 17856134 | 3301013 | 1938245 | - | 29743998 | 20.68% |
| 2008/09 | 5752096 | 377959 | 19187636 | 7101697 | 3001566 | 450767 | 35871721 | 20.6% |
| 2009/10 | 9763154 | 251242 | 12430009 | 9175070 | 3563244 | - | 35182721 | (1.92%) |

*Source: Annexure B.1*

Since the establishment of CBs, they are playing an important role in the economic development of the country by collecting the scattered resources in th farm of deposit. Table No. 1 & 2 shows the trend of deposit ratio since July 2004 to July 2010.

**Figure No. 4.15**

**Deposit Position of SCBNL**




*Source: Table No. 4.15*

From the above table, it is seen that the deposit collection of SCBNL is not always same. It has been always changed. Firstly it has Increase upto 19.27% from 2004/2005 to 2005/2006. After that it started increasing slowly from 2005/2006 to 2006/2007. And after it increase rapidly from 2006/2007 to 2008/2009 up to 20.68% & at last decrease at (1.92%) in 2009/2010.

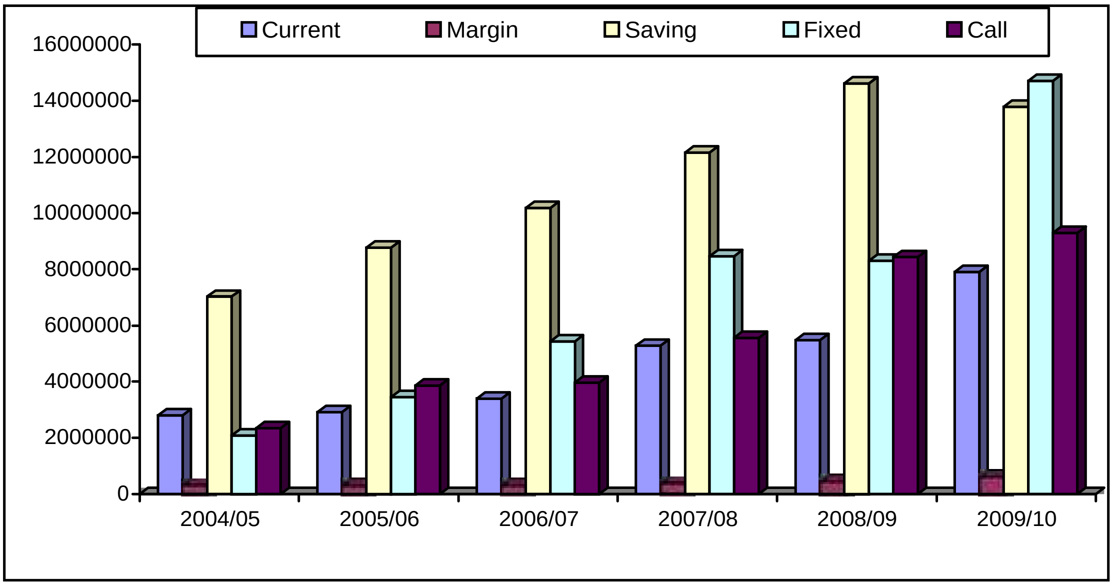
**Table No. 4.16**
**Deposit Position of NABIL** *(Rs. In 000)*

| FY | Current | Margin | Saving | Fixed | Call | Other | TD | Change % |
|---|---|---|---|---|---|---|---|---|
| 2004/05 | 2799184 | 296976 | 7026334 | 2078535 | 2341328 | 44249 | 14589606 | - |
| 2005/06 | 2910589 | 322899 | 8770759 | 3449094 | 3851159 | 42896 | 19347396 | 32.61% |
| 2006/07 | 3395239 | 312060 | 10187354 | 5435189 | 3961633 | 50810 | 23342285 | 20.65% |
| 2007/08 | 5284368 | 361782 | 12159966 | 8464086 | 5563440 | 81385 | 31915047 | 36.73% |
| 2008/09 | 5480533 | 463015 | 14620407 | 8310708 | 8438271 | 35321 | 37348255 | 17% |
| 2009/10 | 7904619 | 629857 | 13783585 | 14711158 | 9295057 | 86424 | 46410700 | 24.26% |

*Source: Annexure B.2*

From the above table, it is seen that the deposit collection of NABIL is not always same. It has been always changed. Firstly it has Increase up to 32.61% from 2004/2005 to 2005/2006. After that it started decreasing slowly from 2005/2006 to 2006/2007. And after it increase rapidly from 2006/2007 to 2007/2008 up to 36.73%, In 2008/2009 it has decrease at 17% & at last increase up to 24.26% in 2009/2010.

**Figure No. 4.16**
**Deposit Position of NABIL**




*Source: Table No. 4.16*

## Different Accounts of SCBNL and Nabil Bank Ltd

### Saving Deposit Account

It is a branch of time deposits. It is a kind of demand deposit limited to draw money under certain fixed amount awarding to the rule of bank. The account can also be opened jointly. An illiterate person can also open a saving account which can operate easily by the specimen of their thumbprint and photograph attached in the pass book. Pre-notice is needed when sum over is needed when sum over fixed amount is required to be with drawn. The sole amount of opening of this is to promote thrift among the lower income class people.

**Table No. 4.17**

**Saving Deposit Position of SCBNL** *(Rs. In 000)*

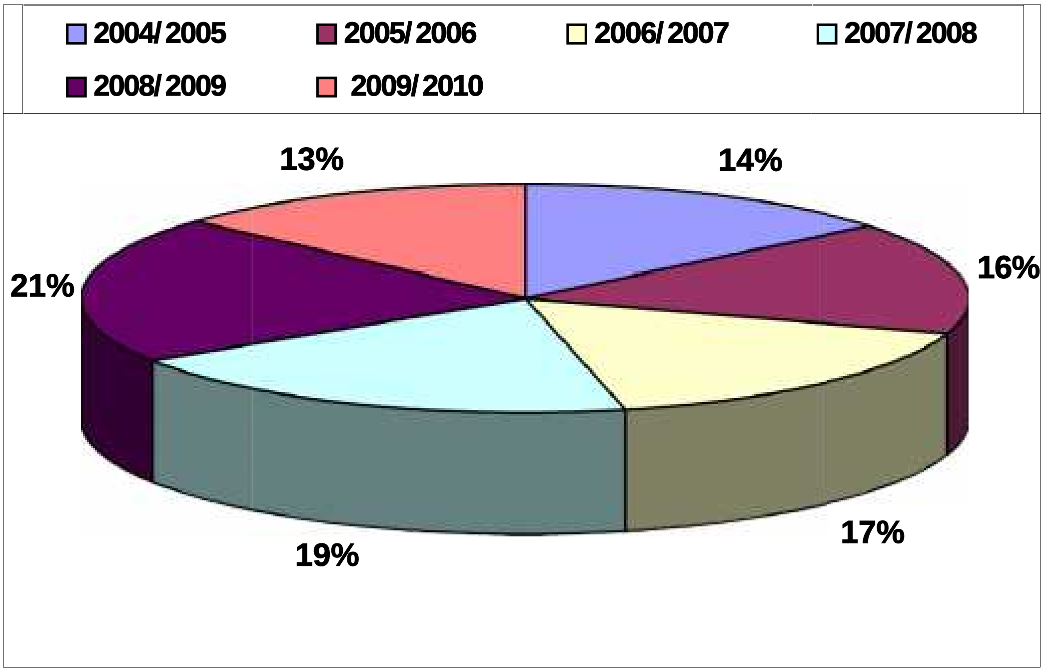
| Year | Saving Deposit | Degree | Change in deposit | % change |
|---|---|---|---|---|
| 2004/2005 | 13030929 | 50.8 | | |
| 2005/2006 | 14597674 | 56.91 | 1566745 | 12.0% |
| 2006/2007 | 15244384 | 59.43 | 646710 | 4.43% |
| 2007/2008 | 17856134 | 69.61 | 2611750 | 17.13% |
| 2008/2009 | 19187636 | 74.8 | 1331502 | 7.50% |
| 2009/2010 | 12430009 | 48.5 | (6757627) | (35.22%) |
| | **92346766** | | | |

$$Degree\ \mathrm{X}\ \frac{Deposit}{Total} \mid 360$$

The table indicates the amount deposited in saving account from 2004/2005 to 2009/2010. The figure shows the decreasing trend of saving deposits. In the year 2005/2006, the saving deposits is increased to Rs 1566745 thousand, in percentage term 12% which shows the high rate of increase in contrast with former and preceding year of the period under review. From the year 2006/2007 deposited amount is increasing throughout but at increasing rate up to 17%. In the year 2008/2009 deposited amount stood at Rs 1331502 thousand which has increment percentage 7.50 & last year in 2009/2010 ration has decreased in negative ratio.

**Figure No. 4.17**

**Saving Deposit Position of SCBNL**




*Source: Table No. 4.17*

**Table No. 4.18**

**Calculation of Trend Analysis of Saving Deposit of SCBNL for 7 Years**

| Year | Trend Value Yc |
|---|---|
| 2004/05 | 1593.4 |
| 2005/06 | 1589.6 |
| 2006/07 | 1585.8 |
| 2007/08 | 1582 |
| 2008/09 | 1578.6 |
| 2009/10 | 1574.4 |
| 2010/11 | 1570.6 |

*Source: Annexure C.1*

**Table No. 4.19**

**Saving Deposit Position of NABIL** *(Rs. In 000)*

| **Year** | **Saving Deposit** | **Degree** | **Change in deposit** | **% change** |
|---|---|---|---|---|
| 2004/2005 | 7026334 | 38.01 | | |
| 2005/2006 | 8770759 | 47.45 | 1744425 | 24.83% |
| 2006/2007 | 10187354 | 55.11 | 1416595 | 16.15% |
| 2007/2008 | 12159966 | 65.78 | 1972612 | 19.36% |
| 2008/2009 | 14620407 | 79.10 | 2460441 | 20.23% |
| 2009/2010 | 13783585 | 74.56 | (836822) | (5.72)% |
| | **66548405** | | | |

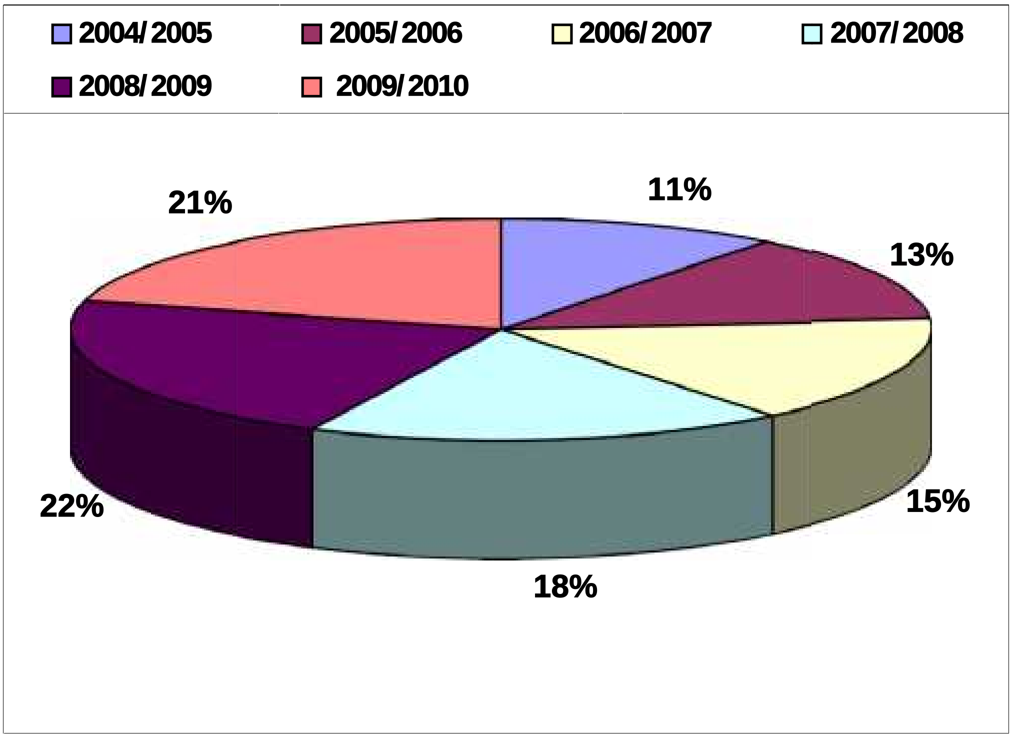
$$Degree\,X\,\frac{Deposit}{Total}\,|\,360$$

Above table indicates the amount deposited in saving account from 2004/2005 to 2009/2010. The figure shows the percentage change of deposits in every financial year is fluctuating. In the year 2005/2006, the saving deposits is increased to Rs 1744425 thousand, in percentage term 24.83% which shows the high rate of increased. From the year 2006/2007 deposited amount is decrease up to 16.15%. In the year 2007/2008 deposited percentage slide increase up to 19.36% & 20.23% in 2008/2009. Than at last year 2009/2010 saving deposit percentage has gone in decreased to (5.72%) last year in 2009/2010 ratio has decreased in negative ratio.

The equation of the straight live trend is $Y_c$ = a+bx

**Figure No. 4.18**

**Saving Deposit Position of NABIL**




*Source: Table No. 4.19*

**Table No. 4.20**

**Calculation of Trend Analysis of Saving Deposit of NABIL for 7 Years**

| Year | Trend Value Yc |
|---|---|
| 2004/05 | 900.8 |
| 2005/06 | 1045.4 |
| 2006/07 | 1190 |
| 2007/08 | 1334.6 |
| 2008/09 | 1479.2 |
| 2009/10 | 1623.8 |
| 2010/11 | 1768.4 |

*Source: Annexure C.2*

### Fixed Deposit Account

The main source of CBs to advice loans and to invest in the various sectors of the economy in the fixed deposit itself. The bank can utilize the money of fixed deposit. It is because the depositors fixed periods of time say for six months, one year, three years, five years, seven years and so forth. Depositors cann't get refund of the money before the period due. If some depositors want to withdraw his money from fixed deposit before due date the bank make charge some penalty.

**Table No. 4.21**

**Fixed Deposit Position of SCBNL** *(Rs. In 000)*

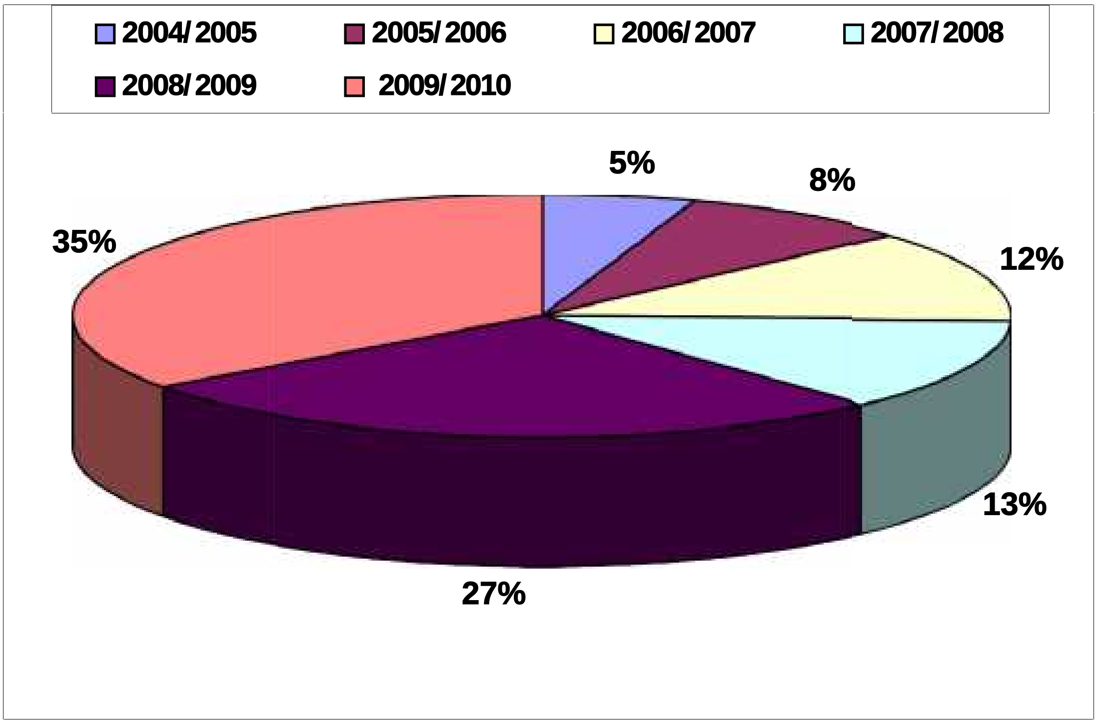
| Year | Fixed Deposit | Degree | Change in deposit | % change |
|---|---|---|---|---|
| 2004/2005 | 1416382 | 19.37 | | |
| 2005/2006 | 2136307 | 28.50 | 719925 | 50.83% |
| 2006/2007 | 3196489 | 43.71 | 1060182 | 49.63% |
| 2007/2008 | 3301013 | 45.14 | 104524 | 3.27% |
| 2008/2009 | 7101697 | 97.11 | 3800684 | 115.14% |
| 2009/2010 | 9175070 | 125.46 | 2073373 | 29.20% |
| | **26326958** | | | |

$$Degree\, \mathrm{X}\, \frac{Deposit}{Total} \mid 360$$

In year 2004/2005 the amount in fixed of SCBNL was Rs 1416382 thousand and during the year 2005/2006 it reached to Rs. 2136307 thousand i.e. it is increased by 50.83%. During the year 2006/2007 it has slide decreased by 49.63%. In 2007/2008 deposit percentage is hugely decreased by 3.27%. In 2008/2009 the amount of fixed deposit is hugely increased by 3800684 thousand i.e. it is increased by 115.14%. During the year 2009/2010 the amount deposits increase by Rs. 2073373 or 29.20%.

**Figure No. 4.19**

**Fixed Deposit Position of SCBNL**




*Source: Table No. 4.21*

**Table No. 4.22**

**Calculation of Trend Analysis of Fixed Deposit of SCBNL for 7 Years**

| Year | Trend Value Yc |
|---|---|
| 2004/05 | 138 |
| 2005/06 | 317.9 |
| 2006/07 | 497.8 |
| 2007/08 | 1217.4 |
| 2008/09 | 857.6 |
| 2009/10 | 1037.5 |
| 2010/11 | 1217.4 |

*Source: Annexure C.3*

**Table No. 4.23**

**Fixed Deposit Position of NABIL** *(Rs. In 000)*

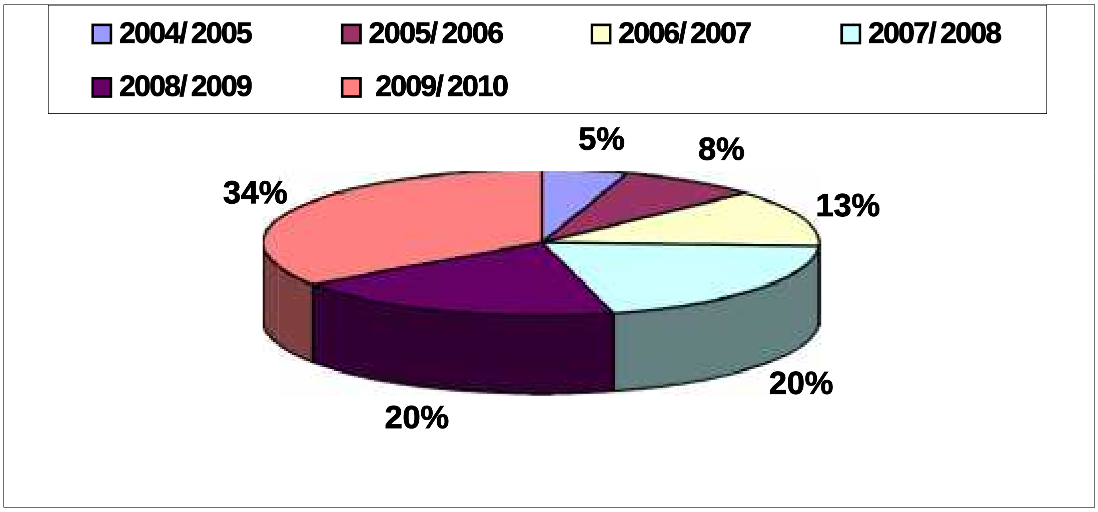
| Year | Fixed Deposit | Degree | Change in deposit | % change |
|---|---|---|---|---|
| 2004/2005 | 2078535 | 17.63 | | |
| 2005/2006 | 3449094 | 29.25 | 1370559 | 65.94% |
| 2006/2007 | 5435189 | 46.10 | 1986095 | 57.58% |
| 2007/2008 | 8464086 | 71.78 | 3028897 | 55.73% |
| 2008/2009 | 8310708 | 70.48 | (153378) | (1.81) |
| 2009/2010 | 14711158 | 124.76 | 6400450 | 77.01% |
| | **42448770** | | | |

$$Degree\ \mathrm{X}\ \frac{Deposit}{Total} \mid 360$$

In year 2004/2005 the amount in fixed deposit of Nabil Bank was Rs 2078535 thousand and during the year 2005/2006 it reached to Rs 3449094 thousand i.e. it is increased by (65.94%). From the year 2006/2007 to 2007/2008 the deposit increase in decrease ratio by 57.58%, 55.73% & year in 2008/2009 percentage decrease by (1.81). In final year 2009/2010 the percentage has increased by 77.01%. The table indicates that fixed deposit gained the highest rate of speed as 77.01%. in year 2009/2010.

**Figure No. 4.20**

**Fixed Deposit Position of NABIL**




*Source: Table No. 4.21*

**Table No. 4.24**

**Calculation of Trend Analysis of Fixed Deposit of Nabil for 7 Years**

| Year | Trend Value Yc |
|---|---|
| 2004/05 | 298.6 |
| 2005/06 | 552.8 |
| 2006/07 | 807 |
| 2007/08 | 1061.2 |
| 2008/09 | 1315.4 |
| 2009/10 | 1569.6 |
| 2010/11 | 1823.8 |

*Source : Annexure C.4*

## Current Deposits

Current deposit is also known as demand deposit. Money can be deposited as often as the depositor wishes. As the name implies, the deposited money can be withdrawn immediately up on demand. Individuals, business firms and the corporation own the bulk of such deposit. The type of account can be open with minimum balance. A current deposit is evidenced by a passbook may be held by individuals and a monthly statement of account is given to the concerned depositors to verify and reconcile their bank accounts. The CBs in Nepal do not allow interest in deposit in current account.

**Table No. 4.25**

**Current Deposit Position of SCBNL** *(Rs. In 000)*

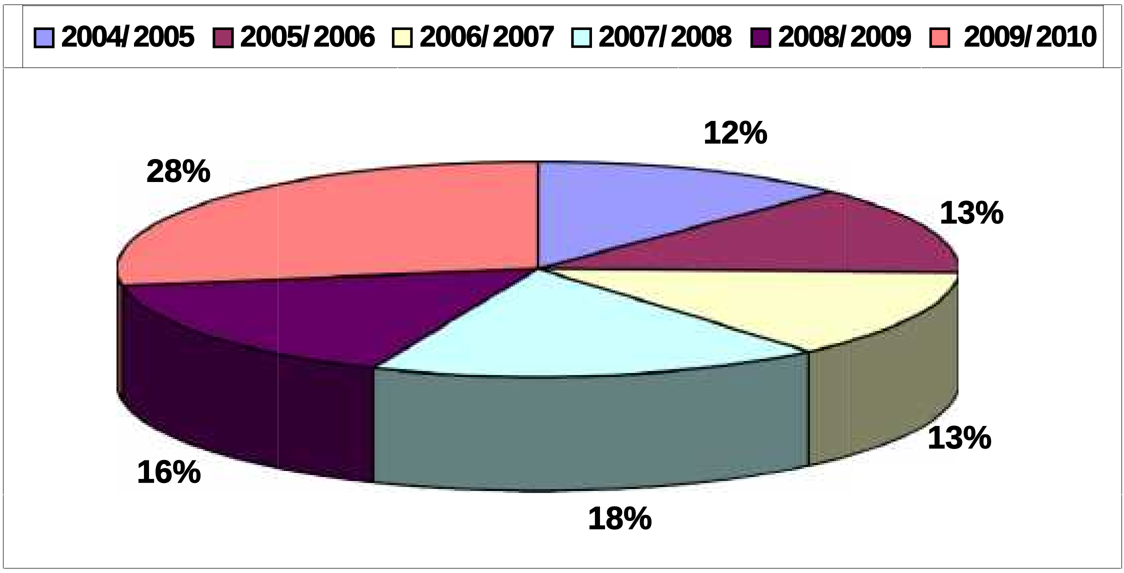
| Year | Current Deposit | Degree | Change in deposit | % change |
|---|---|---|---|---|
| 2004/2005 | 4356337 | 44.15 | | |
| 2005/2006 | 4681937 | 47.45 | 325600 | 7.47% |
| 2006/2007 | 4794534 | 48.59 | 112597 | 2.40% |
| 2007/2008 | 6174560 | 62.58 | 1380026 | 28.78% |
| 2008/2009 | 5752096 | 58.29 | (422464) | (6.84) |
| 2009/2010 | 9763154 | 98.94 | 4011058 | 69.73% |
| | **35522618** | | | |

$$Degree \text{ X } \frac{Deposit}{Total} \,|\, 360$$

In year 2004/2005 that amount in this deposit in this report was Rs 4356337 thousand and it increase to Rs 4681937 thousand in 2005/2006 increase amount of Rs 325600 or change in deposit by 7.47% Again in year 2006/2007 the deposit amount decreased by Rs 112597 or by 2.40%. In the year 2007/2008 the deposit amount increased by Rs 1380026 thousand or by 28.78%. In year 2005/2006 the deposit amount decreased by Rs (422464) thousand or by (6.84%). In year 2009/2010 deposit percentage has increased huge amout & percentage in amount 4011058 & percentage is 69.73%.

**Figure No. 4.21**

**Current Deposit Position of SCBNL**




*Source: Table No. 4.25*

**Table No. 4.26**

**Calculation of Trend Analysis of Current Deposit of SCBNL for 7 Years**

| Year | Trend Value Yc |
|---|---|
| 2004/05 | 400.6 |
| 2005/06 | 511.8 |
| 2006/07 | 623 |
| 2007/08 | 734.2 |
| 2008/09 | 845.4 |
| 2009/10 | 956.6 |
| 2010/11 | 1067.8 |

*Source : Annexure C.5*

**Table No. 4.27**

**Current Deposit Position of Nabil Bank Ltd.** *(Rs. In 000)*

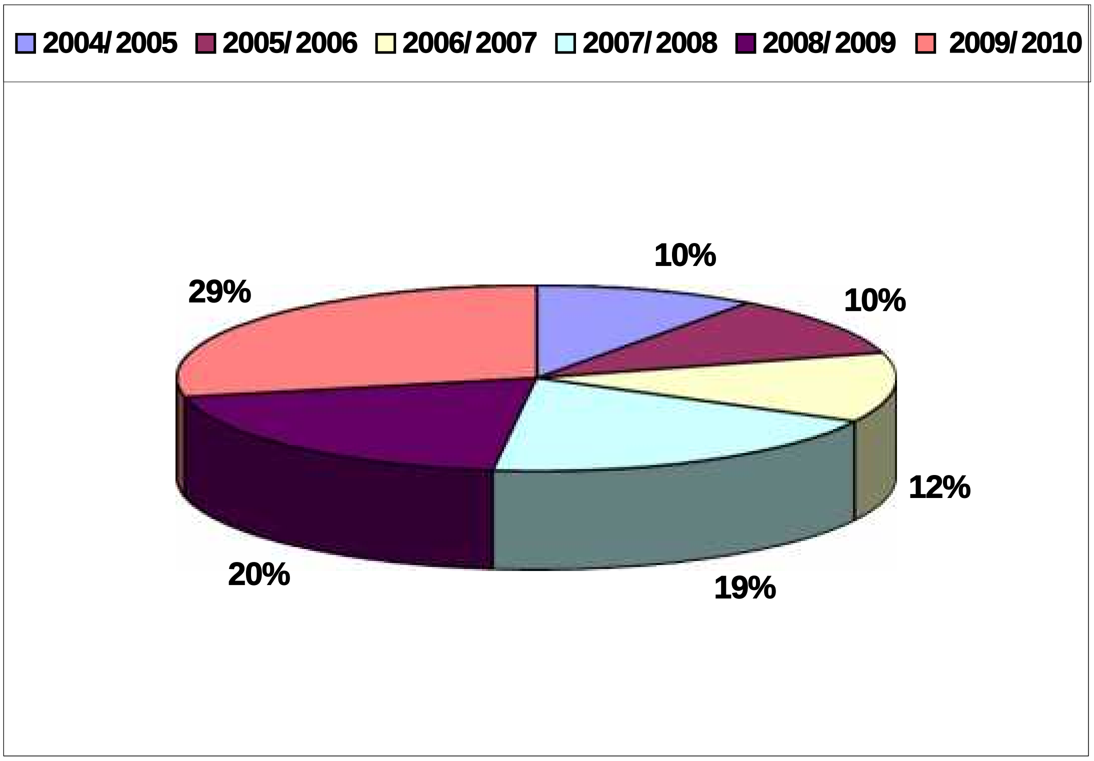
| Year | Current Deposit | Degree | Change in deposit | % change |
|---|---|---|---|---|
| 2004/2005 | 2799184 | 36.28 | | |
| 2005/2006 | 2910589 | 37.73 | 111405 | 3.98% |
| 2006/2007 | 3395239 | 44.01 | 484650 | 16.65% |
| 2007/2008 | 5284368 | 68.49 | 1889129 | 55.64% |
| 2008/2009 | 5480533 | 71.04 | 196165 | 3.71% |
| 2009/2010 | 7904619 | 102.46 | 2424086 | 44.23% |
| | **27774532** | | | |

$$Degree \, \text{X} \, \frac{Deposit}{Total} \mid 360$$

In year 2004/2005 that amount in this deposit in this report was Rs 2799184 thousand and it increased amount up to Rs. 5284368 thousand year 2007/2008 in percentage 55.64% & increased amount is Rs. 1889129 thousand. Then % change has moved decreasing way. In 2008/2009 it reduced 3.71% or amount is 196165 thousand. In the year 2009/2010 % change has increased up to 44.23%.

**Figure No. 4.22**

**Current Deposit Position of NABIL**




*Source: Table No. 4.27*

**Table No. 4.28**

**Calculation of Trend Analysis of Current Deposit of Nabil for 7 Years**

| Year | Trend Value Yc |
|---|---|
| 2004/05 | 257.8 |
| 2005/06 | 378.5 |
| 2006/07 | 499.2 |
| 2007/08 | 619.9 |
| 2008/09 | 740.6 |
| 2009/10 | 861.3 |
| 2010/11 | 982 |

*Source : Annexure C.6*

## Margin Deposit

**Table No. 4.29**

**Margin Deposit Position of SCBNL** *(Rs. In 000)*

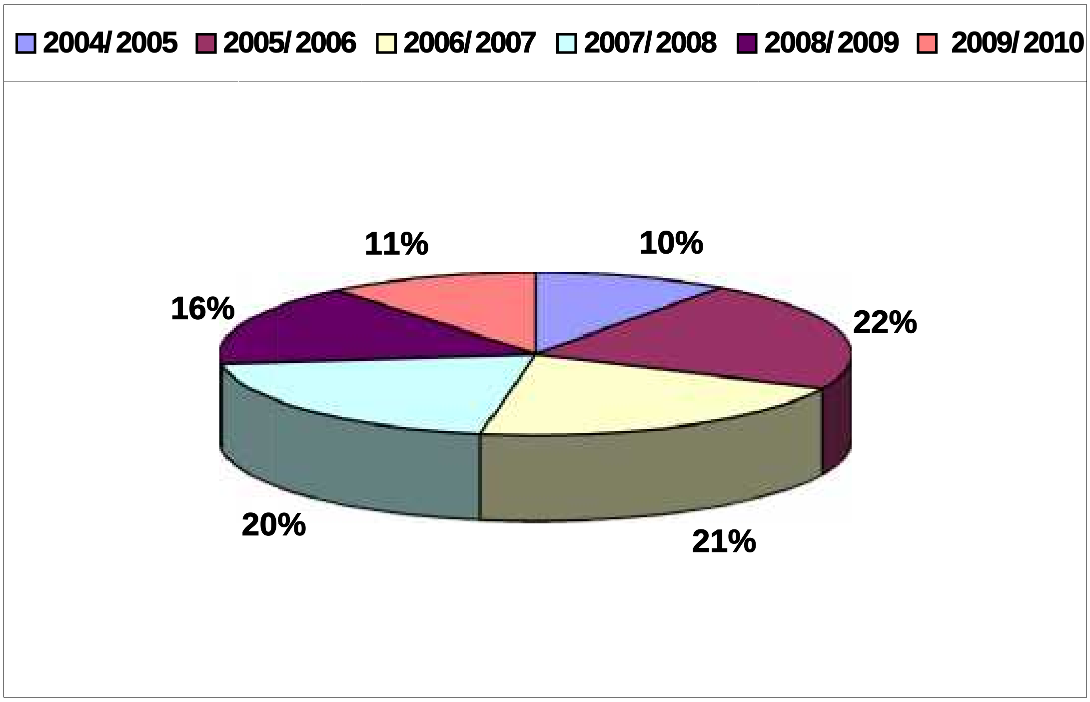
| Year | Margin Deposit | Degree | Change in deposit | % change |
|---|---|---|---|---|
| 2004/2005 | 236579 | 36.47 | | |
| 2005/2006 | 509421 | 78.53 | 272842 | 115.33% |
| 2006/2007 | 486101 | 74.93 | (23320) | (4.58) |
| 2007/2008 | 474043 | 73.08 | (12058) | (2.48) |
| 2008/2009 | 377959 | 58.26 | (96084) | (20.27) |
| 2009/2010 | 251242 | 38.73 | (126717) | (33.53) |
| | **2335345** | | | |

$$Degree\ \mathrm{X}\frac{Deposit}{Total}\,|\,360$$

In the above table no 15. it is seen that Margin Deposit of SCBNL is not always the same from the beginning of the period. In the year 2004/2005 that the amount in the margin deposit in this report was Rs. 236579 thousand and it increased to Rs. 509421 or by 115.33%. After that it is started decreasing to (4.58% ) in year 2006/2007. Year 2007/2008, 2008/2009 to 2009/2010 it has decreased by (2.48%), (20.27%), (33.53%).

**Figure No. 4.23**

**Margin Deposit Position of SCBNL**




*Source: Table No. 4.29*

**Table No. 4.30**

**Calculation of Trend Analysis of Margin Deposit of SCBNL for 7 Years**

| Year | Trend Value Yc |
|---|---|
| 2004/05 | 53.6 |
| 2005/06 | 47.5 |
| 2006/07 | 41.4 |
| 2007/08 | 35.3 |
| 2008/09 | 29.2 |
| 2009/10 | 23.1 |
| 2010/11 | 17 |

*Source : Annexure C.7*

**Table No. 4.31**

**Margin Deposit Position of NABIL** *(Rs. In 000)*

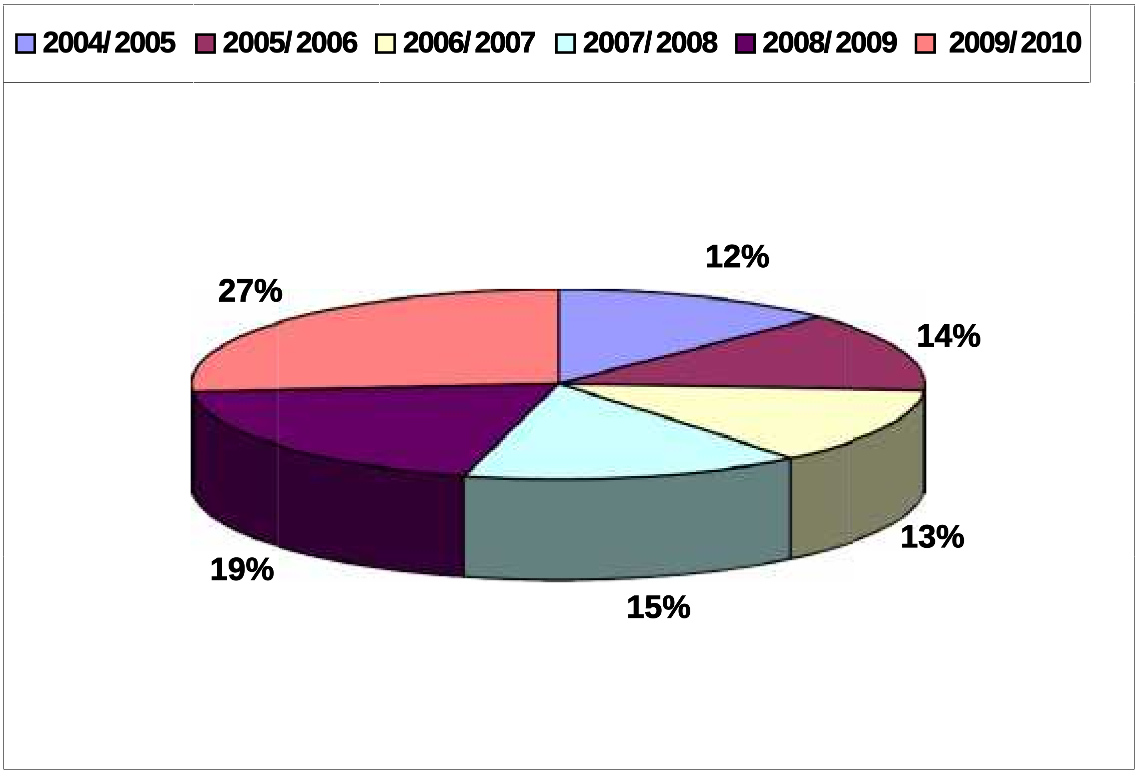
| Year | Margin Deposit | Degree | Change in deposit | % change |
|---|---|---|---|---|
| 2004/2005 | 296976 | 44.80 | | |
| 2005/2006 | 322899 | 48.71 | 25923 | 8.73% |
| 2006/2007 | 312060 | 47.07 | (10839) | (3.36%) |
| 2007/2008 | 361782 | 54.57 | 49722 | 15.93% |
| 2008/2009 | 463015 | 69.84 | 101233 | 27.98% |
| 2009/2010 | 629857 | 95.01 | 166842 | 36.03% |
| | **2386589** | | | |

$$Degree \, \mathrm{X} \, \frac{Deposit}{Total} \,|\, 360$$

In the above table it is seen that Margin Deposit of Nabil Bank is not always the same from the beginning of the period. In the year 2004/2005 that the amount in the margin deposit in this report was Rs. 296976 thousand and it increased to Rs 25923 thousand or by 8.73%. After that it is started decreasing to (3.36%) in year 2007/2008, 2008/2009, 2009/2010 increased % of margin deposit of NABIL up to 15.93%, 27.98% & 36.03%.

**Figure No. 4.24**

**Margin Deposit Position of NABIL**




*Source: Table No. 4.31*

**Table No. 4.32**

**Calculation of Trend Analysis of Margin Deposit of Nabil Bank Ltd**

| Year | Trend Value Yc |
|---|---|
| 2004/05 | 26.4 |
| 2005/06 | 33.9 |
| 2006/07 | 41.4 |
| 2007/08 | 48.9 |
| 2008/09 | 56.4 |
| 2009/10 | 63.9 |
| 2010/11 | 71.4 |

*Source : Annexure C.8*

**Structure of Investment**

The dissertate with an objective to identity the structure of investment of NRB has tried to percent how these Banks have carried its investment in different sector during these fiscal year 2004/2005 to 2009/2010. Commercial banks invest their funds in different sectors of to economy such as.

**A. Investment on Government Securities, Shares and Debentures**

Though a commercial Bank can earn some interest and dividend from the investment of government securities, share and debenture, it is not the major portion of income but it is treated as a second source of banking business. A Commercial bank may extend credit by treating it as a second source of banking business. A commercial bank may extend credit by purchasing government securities bonds and shares for several reasons.

Some of them are given as:

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

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

**D. Investment on other Company's share and Debentures**

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of NRB directives, the commercial banks purchase shares and debentures of regional development bank, NIDC and other development banks.

### C. Sector wise Investment

Sector wise investment refer to the investment in various sectors as agriculture, productions, construction, transportation, communications, wholesalers & retailers, Consumable loan that are considered essential for overall economic growth of the nation. They constitute the basic infrastructures that provide the logistics support for the growth and prosperity of the economy. By investing in such sectors banks can help the entire nation in pacing up the economic growth and the prosperity of the nation.

### D. Priority & Deprived sector Investment

Priority sector includes micro and small enterprises, which help to increase production, employment and income as prioritized under the national development plans with an objective to uplift living standard of general public. Many directives have been introduced and amended as per the requirement by NRB. Commercial banks are directed to invest 5% in priority sector with inclusive of 3% in deprived sector. The credit limits in the priority sectors has been raised to Rs. 2.0 million from Rs 1.0 million on agricultural and service sector and from Rs 1.5 million to Rs 2.5 million on cottage and small-scale industry.

Likewise deprived sector credit includes low income and particularly socially backward women, tribes, physically impaired groups etc. Deprived sector investment is advanced up to Rs 30000 per borrower of micro credit programs and projects. However, priority sector credit programmed is being phased out by NRB.

### Growth Rate of Investment

Investment in government securities ensures the safety of funds with the moderate rate of return. Some portion of deposits collected from the depositors is invested in government securities. They are considered to be free of risk of default and because of its low risk feature, it has low yield. Funds are invested in such securities with the view of not keeping idle funds. They are more liquid in nature than loans and advances.

**Table No. 4.33**

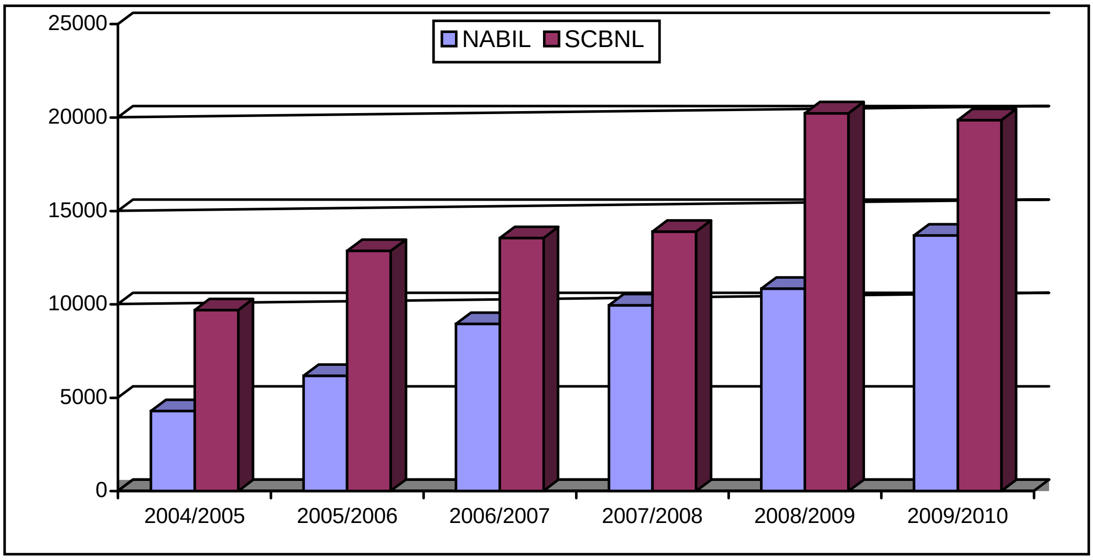
**Showing investment & Growth rate** *(Rs in Million)*

| Banks | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | Growth% |
|---|---|---|---|---|---|---|---|
| NABIL | 4275 | 6178 | 8945 | 9939 | 10826 | 13670 | **26.17%** |
| SCBNL | 9702 | 12847 | 13553 | 13902 | 20236 | 19847 | **15.39%** |

*Source: Annexure C.9*

**Figure No. 4.25**

**Growth Rate of Investment**




*Source: Table No. 4.33.*

The table and the figure above depict higher investment by SCBNL in government securities. SCBNL has drastically increased its investment, which is shown by the growth rate table. NABIL has also increase continuously.

### Coefficient of Correlation between Total Deposits and Total Investment

When analyzing the investment policy of banks selected for the study, their deposits and total investments play very important role in that there is direct relationship between these two variables of the banks. Hence, the coefficient of correlation between total deposit and total investment measures the degree of relationship between these two variables. As is known that the investment always depends upon deposits, so in this analysis, deposit is independent variable and i.e. X and investment is dependant variable i.e. Y. The main objective of computing 'r' between these two variables is to find out whether deposits are significantly used as investment or not.

**Table No. 4.34**

**Coefficient of Correlation between Total Deposits and Total Investment**

**NABIL & SCBNL**

| FY | NABIL | | SCBNL | |
|---|---|---|---|---|
| | Investment (X) | Deposit (Y) | Investment (X) | Deposit (Y) |
| 2005/06 | 6178 | 19347 | 12847 | 23061 |
| 2006/07 | 8945 | 23342 | 13553 | 24647 |
| 2007/08 | 9939 | 31915 | 13902 | 29743 |
| 2008/09 | 10826 | 37348 | 20236 | 35871 |
| 2009/10 | 13670 | 46410 | 19847 | 35182 |
| Mean | 9911.6 | 31672.4 | 16077 | 29700.8 |
| SD | 7725.30 | 30693.45 | 3257.12 | 5248.71 |
| CV | 77.94 | 96.91 | 20.26 | 17.67 |
| r | 0.96 | | 0.9411 | |

*Source: Annexure C.10,C.11*

In analyze C.V (Deposit) & C.V (Investment), Deposit is more consistent than Investment because C.V. of deposit is less than investment. When analyzing Table 4.34, It is found that the correlation coefficients between total deposits and investments of NABIL and SCBNL are 0.96 and 0.94 respectively. They indicate that there were positive relationships between the two variables deposits, i.e. independent variable, and investment, i.e. dependant variable of both banks because value of ‘r’ was between +1 and –1. Since r is less than 1. So the correlation between investment and Deposit is positive correlation of Nabil Bank Ltd. & SCBNL.

**Analysis of Primary Data on the Investment Decisions of the Banks**

With a view to analyze the responses on the investment decisions of the commercial banks, the concerned officials of the banks selected for the study and other banks were provided questionnaire. The various types of questionnaire relating the investment decisions of the banks was prepared and distributed to banks' officials on a stratified random sampling basis. Altogether 25 sets of questionnaires were administered to the bank officials. To get the quick and full response, all the questions were objectives types. The summarized collected responses from respondents have been presented below:

**People responsible for making deposit & investment policy decision**

The first question put forth to the respondents was the people responsible for making the investment decision. The responses of them have been presented in the below table.

**Table No. 4.35**

**People Responsible for Making Deposit & Investment Policy Decision**

| S. N. | Source | No. of Respondents | % |
|---|---|---|---|
| 1 | Credit Department | 4 | 16 |
| 2 | B.O.D. | 2 | 8 |
| 3 | Top level management | 6 | 24 |
| 4 | All of them | 13 | 52 |
| **Total** | | **25** | **100** |

*Source: Field Study 2011*

Table 4.35 shows that the majority of the respondents ƒ52%) said all of them such as credit department, B.O.D. and top level management of the banks were responsible for making investment decisions. Only 8% of them said the BOD was responsible, while 16% and 24% of them said credit department and top level management were respectively responsible for making final decisions.

**Factors while to be considered during designing deposit & investment policy**

The factor is considered while making responses regarding the designing of investment policy of the banks have been presented in below table.

**Table No. 4.36**

**Factors to be considered for Designing Deposit & Investment Policy**

| S. N. | Factors | No. of Respondents | % |
|---|---|---|---|
| 1 | Government Policy | 2 | 8 |
| 2 | Trend | 2 | 8 |
| 3 | Competition | 2 | 8 |
| 4 | All of them | 19 | 76 |
| **Total** | | **25** | **100** |

*Source: Field Study 2011*

Table 4.36 shows that the majority of the respondents ƒ76%) said all government policy, Trend and competition are the main factors to be considered while designing the investment policy. In favor of above three factors all said that only 8% to all is to be considered.

**Following of any standard format while developing deposit & investment policy**

The summarized results that were asked to the respondents while developing the investment policy were given in Table 4.37.

**Table No. 4.37**

**Following of any Standard Format While Developing Deposit & Investment Policy**

| S. N. | Response | No. of Respondents | % |
|---|---|---|---|
| 1 | Yes | 15 | 60% |
| 2 | No | 10 | 40% |
| **Total** | | **25** | **100** |

*Source: Field Study 2011*

The table shows that majority of the respondents about 60% of them have given the positive response whereas 40% of them have given negative response towards the standard format while developing the investment policy.

**Development of any specific portfolios while developing investment policy**

The summarized result of respondents towards the development of any specific portfolios while investment policy can be presented below.

**Table No. 4.38**

**Development of any Specific Portfolios**

| S. N. | Response | No. of Respondents | % |
|---|---|---|---|
| 1 | Yes | 2 | 10 |
| 2 | No | 23 | 90 |
| **Total** | | **25** | **100** |

*Source: Field Study 2011*

Table 4.38 shows while making the inquiry about the development of any specific portfolios of investment policy in the bank, most of the respondents have negative answer i.e. 90% and only 10% of them gave the positive responses.

**Ultimate benefits provided by the past investment policies**

The summarized result provided by the past investment policies are presented below.

**Table No. 4.39**

**Ultimate Benefits Provided By Investment Policy**

| **S. N.** | **Response** | **No. of Respondents** | **%** |
|---|---|---|---|
| 1 | High | 5 | 20 |
| 2 | Moderate | 14 | 54 |
| 3 | Low | 6 | 24 |
| **Total** | | **25** | **100** |

*Source: Field Study 2011*

Table 4.39 shows that the majority of the respondents ƒ54%) said average, followed by 24% and 20%, low and high response respectively about the benefits got by the past investment policies.

**Frequency of review of deposit & investment policy of the banks**

The summarized result of frequency of review of investment policy of the banks has been given in the following table 4.40.

**Table No. 4.40**

**Frequency of Review of Deposit & Investment Policy**

| **S. N.** | **Response** | **No. Of Respondents** | **%** |
|---|---|---|---|
| 1 | Yearly | - | - |
| 2 | Half Yearly | 10 | 40 |
| 3 | Quarterly | 15 | 60 |
| Total | | 25 | 100 |

*Source: Field Study 2011*

Table 4.40 shows where the respondents were asked about the frequency of review of investment policy of the banks and most of the answered which they have reviewed were quarterlyƒ60%) and necessary changes according to the requirement are made. Banks shall arrange for review of investment portfolios on half yearly basisƒ40%). With respect to such review, a statement from the internal auditor of the bank certifying that the investments are made as per the existing investment policy and as per these directives be obtained and shall also be approved by the Board of Directors within one month.

**Implementation of deposit & investment policy**

Table 4.41 shows the response of the respondents regarding implementation of investment policy.

**Table No. 4.41**

**Implementation of Deposit & Investment policy**

| S.N. | Response | No. of Respondents | % |
|---|---|---|---|
| 1 | Yes | 21 | 84 |
| 2 | No | 4 | 16 |
| **Total** | | **25** | **100** |

*Source: Field Study 2011*

Commercial banks have good control on investment policy of the banks. They maintain tight monitoring on the investment policy. Therefore, the above table ƒTable 4.41) shows that majority of the respondents have given positive answers regarding the implementation of the investment policy, i.e. 84% and only 16% of them have given negative answers.

**Effect of government policy in deposit & investment policy**

The summarized Details of the effects of government policy in investment policy are given in the following table.

**Table No. 4.42**

**Effect of Government policy on Deposit & Investment Policy**

| S. N. | Response | No. of Respondents | % |
|---|---|---|---|
| 1 | Yes | 24 | 96 |
| 2 | No | 1 | 4 |
| Total | | 25 | 100 |

*Source: Field Study 2011*

Government policy is one of the major factors, which influence the investment policy of the banks. Government factor can be considered as one of the determining factors while formulating the investment policy of the banks. Therefore, the above table ƒTable 4.42) shows that majority of the respondents have given positive response i.e. 96%, regarding effect of government policy on investment policy and only 4% have given negative response.

**Collection of funds required for investment policy**

The details about the collection of funds for the investment policy have given in the following table.

**Table No. 4.43**
**Collection of Funds for Investment Policy**

| S. N. | Response | No. of Respondents | % |
|---|---|---|---|
| 1 | Yes | 25 | 100 |
| 2 | No | - | - |
| **Total** | | **25** | **100** |

*Source: Field Study 2011*

The above table ƒTable 4.43) shows that all the respondents have given the positive answer i.e. 100%, no one has given even 1% also. So, the result was found in the favor of collection of adequate funds. The banks launch the different attractive schemes for the collection of deposits from the public so that they can lend in the productive sectors for the profit maximization of the banks.

**Maintenance of cash balance in local currency in the vault as instructed by NRB**

The responses regarding the maintaining the maintenance of cash balance in vault is given in the following table:

**Table No. 4.44**

**Maintenance of Cash Balance in Vault**

| S.N. | Response | No. of Respondents | % |
|---|---|---|---|
| 1 | Yes | 0 | 0 |
| 2 | No | 25 | 100 |
| **Total** | | **25** | **100** |

*Source: Field Study 2011*

The above table ƒTable 4.44) shows that all the respondents have given voting towards the negative response i.e. 100%. It is mandatory rule of the NRB to maintain the cash balance in the vault as prescribed by NRB. Different penalties are levied if the bank would not be able to maintain the minimum cash balance. So, banks were found to able to maintain the cash balance.

## Major Findings

- The cash and bank balance to total deposit ratio of NABIL is 5.58 percent in an average and SCBNL has 6.77 percent. The average ratio of SCBNL is higher than NABIL. The ratios of the banks are found to be in fluctuating.
- The Loan and Advances to Total Deposit ratio of NABIL is 69.17 percent in an average and 42.17 percent in an average for SCBNL. The ratios of the banks are found to be in fluctuating.
- The Total Investment to Total Deposit ratio of NABIL is 31.4 percent in an average and SCBNL has 50.35 percent in an average. The ratios of the banks are found to be in fluctuating.
- The Investment on Shares and Debentures to Total Working Fund ratio of NABIL is 15.43 percent and 20.25 percent in an average for SCBNL. The ratios of the banks are found to be in fluctuating.
- The Liquidity Risk ratio of NABIL is 5.68 percent in an average and for SCBNL is 6.77 percent in an average. The ratios of the banks are found to be in fluctuating.
- The calculation of correlation coefficient between deposit and investment is 0.96, shows the positive correlation for NABIL, SCBNL has also positive correlation coefficient which is 0.94 between deposit and investment.

On the analyzing the primary data collected from the respondents regarding the investment policy of the banks, the following were derived.

- Credit department, Board of Directors and top-level management are responsible for formulating investment policy decision.
- Government policy, trend, competition in the market etc. should be considered while designing the investment policy of the banks.
- The banks while formulating the investment policy of the banks follow standard formats
- Commercial banks review the investment policy quarterly and make necessary changes as according to their requirements for maximum benefits. Implementation of the investment policy is higher as they maintain close monitoring and tight control.

# CHAPTER FIVE

## SUMMARY, CONCLUSION & RECOMMERNDATIONS

### Summary

It been about six decades the banking sector has emerged and flourished very prosperously to reach this present condition. In the context of Nepal, it has grown with a faster pace than any other form of business. Its growth became of the various functions carried out by the commercial banks as per the need of time. Banks provide various services as per the needs and requirements and such functions are considered very helpful for the economic prosperity of the nation.

From the time immemorial banks have related itself to lending business. The word "bank" itself gives us the idea of either borrowing or lending of funds. The bank work is the intermediary between the excess cash holders to those who have it scarce. The difference between interest it charges and it offers constitute the major income source of the banks. Though there are various other activities carried out by the bank, lending function still supersedes the rest of its activities. Deposits constitute the major portion of the liability side and loans and advances constitute the major portion of the assets side.

Initially, the major portion of these banks consists of business and industrial loans. But now they are turning away to hire purchase and housing financing. Strengthening and institutionalization of commercial bank is very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sector.

The commercial banks have to prove that they can really contribute to the national economy. They efficient and viable agencies for collection of savings and its mobilization into productive sectors are professionally managed and competent enough to ensure adequate rate of return on investment and strategically well planned to be competitive with other agencies and are trustworthy.

Banks should always ensure the safety of depositors’ money and maximization of shareholders wealth, which is possible through the profits it earns through its functions. The bank should always follow wise investment policy to ensure its future growth and prosperity.

Large number of banks is being established in recent days resulting in a very competitive banking scenario. It has also led in lots of improvement in services provided to the customers. The banks are making immerse efforts to attract the majority of customers, customers being life blood of their business.

The study is based on the secondary data from FY 2004/2005 to 2009/20010. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's degree thesis.

Financial as well as statistical tools have been deployed in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, activity ratio, loans and advances portfolio, profitability ratio and growth ratio have been analyzed and interpreted. Under statistical analysis, some relevant tools i.e. mean, standard deviation, coefficient of correlation, trend analysis, test of hypothesis have been used for the analysis and interpretation of data. This analysis gives clear picture of the performance of the bank with regard to its investment operation.

**Conclusions**

Investment is the major essence of every commercial bank. The formulation and implementation of sound investment policies are among the most important responsibilities of the bank management. Therefore, the main objectives of the study are to assess and evaluate the investment policy and strategy adopted by the concerned banks. From the above analysis, we found out the major stamina of investment policy adopted by concerned bank, and concluding results are as follows:

It is seen that the deposit collection of SCBNL is changed. Firstly it has increased and after that it decrease up to 6.88% in 2006/2007. In 2007/2008 it increased up to 20.68%. Then in year 2009/2010 it decreased (1.92). The Percentage change of deposits of NABIL is in every financial year is fluctuating. It indicates that the year 2009//2010 recorded a progressive rate of growth in total deposits are going to increase. Increased % is 24.46%.

Trend analysis for five years shows that the saving deposit of SCBNL has decrease in the following year. NABIL, the highest trend value in FY 2009 is Rs 1769.4 million. Whereas, the same of the SCBNL is Rs 1570.6 million.

The trend analysis of SCBNL and NABIL for five years shows that the fixed deposit has increase in the following year. NABIL, the highest trend value in FY 2009 is Rs 1823.8 million. Whereas, the same of the SCBNL is Rs 1217 million.

The tread analysis of NABIL for five years shows that the current deposit has increase in the following year which the highest trend value is Rs 982 million in FY 2009. The tread analysis of SCBNL for five years shows that the current deposit has increased in the following years. SCBNL, the highest trend value in 2009 is Rs 1067.8million.

The tread analysis of SCBNL for five years shows that the margin deposit has decrease in the following year up to 17 million in FY 2009. The tread analysis of NABIL for five years shows that the margin deposit has decline and increase in FY 2009 which the highest trend value is Rs 71.4 million.

The overall growth rate of investment of NABIL is 26.17% & the SCBNL is 15.39%**.**

It is seen that growth rate of investment of NABIL is more than SCBNL. So the comparison of two banks, mobilizing of fund of NABIL is better than SCBNL.But the investment amount of SCBNL is greater than NABIL it indicate that SCBNL  invest more amount than NABIL.

At last but not least up to FY 2009/2010 NABIL deposit amount is more than SCBNL but investment amount is SCBNL is more than NABIL. It indicates that SCBNL more utilize of deposit amount to invest sector than NABIL. Overall comprising other commercial bank investing amount of SCBNL is also good investment than others. Loan & advance amount of NABIL is greater than SCBNL. It indicates that NABIL utilize the deposit amount to loan & advance rather than SCBNL. It shows that both commercial banks utilize their fund to the different sector. Both banks are advanced bank to competitive environment. So, both banks have power to go ahead & imprested customer their activities.

**Recommendations**

Following recommendations are made on the basis of the major findings and conclusions.

- **Extend rural credit**

  They are recommended to look upon new area of lending and investment. The rural economy has always been realizing the credit needs; the governing of non-organized money lending has been prevalent in this area.

- **Strength deposit base**

  If it is to generate more profits, it should enhance its deposit collection through introduction of various schemes as of its contemporary banks. Though it has come up with NABIL Bachat scheme with higher interest rates and bumper prizes, it should make more endeavors to increase its deposit collection. It should focus more on low-cost deposits.

- **Simplify lending procedures**

  Procedures and policy relating to loan disbursement should be simple yet full-fledged so that borrowers do not have to go through any sort of hassles and disappointments.

- **Introduce more innovative products & services:**

  The stiff competition among the banks should be faced by introducing innovative products and services made to meet the customer's needs and requirements. Customers' satisfaction should be on top most priority of all the two banks. The banks should follow innovative approach to marketing.

- **Extensive expansion of branches:**

  There should be more expansion of the branches within the various parts of the country so as to facilitate even the general people with the banking services. If the banks reach the each and every nook of the nation, it will surely provide pace to the slow growing economy. Rural credit will be facilitated which will enhance the prosperity of the individuals as well as the nation as a whole.

- **Portfolio Management**

  Effective portfolio management is a must for the survival of the banks. Risk of default is always inherent in lending business. The proper remedy could be diversification. Lending should be diversified to the various business houses carrying out different activities rather than focusing on limited business activities. The amount of credit to be extended to particular business house should also be limited. There is also provision of single obligor limit to ensure this. Some default risk is un diversifiable because it is systematically related to business cycle, which affects almost all investments. However some default risk may be diversified away in a portfolio of independent investments.

- **Implementation of KYC and AML**

  "Banks and Financial Institution Ordinance" prohibits the banks to collect deposits, which is earned by the client though illegal sources, the bank should also not be involved in helping the concealing, transforming, transfer, burring the originating source, or misrepresentation of such illegally earned money. It is extremely important to ensure that monies earned through illegal activities within the county and abroad are not run through the financial system in the country for the benefit of those criminals, irrespective of where the crime was committed. Banks have come up with know your customer (KYC) and anti-money laundering (AML) policies and procedures to crack down the ring of criminals and criminal activities. Though initiation is being taken by the banks and they are in the initial phase of it, banks should ensure that they are not handling the proceeds of crime.

- **Diversification towards investment in productive sectors**

  Initially, the major portion of the banks consist of business and industrial loans, but slowly banks are turning towards hire purchase, housing financing, auto loans etc. Banks should always bear in mind that their efforts should be more concentrated towards productive sectors so as to have meaningful relationship between commercial banks and national development. So, the banks should strike the balance between two.

In a nutshell, we can say, the two banks under study are performing well in terms of their investments, deposit collection and profitability. Yet there are various facts to which they can make an improvement NABIL has its 26 years of goodwill and dedication and SCBNL has succeeded in being highest deposit collector winning the confidence of the public. So the two banks focusing on their strengths and working on their weaknesses are giving competitive threats to each other and all other existing banks and moving towards attaining goals. Both banks have to develop their activities by focusing to customer & first collect more fund than, need to invest different sector as less risky area. Provide facility to customer & all stakeholders than after banks get their objectives. Banks run their activities long way & far distance.

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## ANNEX - A

## Questionnaire

Dear Respondents,

I have been conducting a research on “Deposit & Investment Policy & practices of Commercial Banks in Nepal" for the partial fulfillment of requirement of the degree of MBS. So, I hereby request you to fill the questionnaire at the best of your knowledge. The views taken will be used for the purpose of the study only. The views will be kept confidential and will not be published anywhere.

Your co-operation in this regard will be immense value for me. I shall be highly obliged for your prompt response as far as possible. Thank you.

**Respondent**

| | |
|---|---|
| Name: | Address: |
| Qualification: | Office: |
| Designation: | Signature: |
| Date: | |

**Survey on "Deposit & Investment policy & practices of Commercial Banks in Nepal"**

1. Who is the primary responsible to make deposit & investment policy?
   - a. Credit Department ƒ )
   - b. BOD ƒ )
   - c. Top Level Management ƒ )
   - d. All of them ƒ )
2. What factor should your company consider while designing the deposit & investment policy?
   - a. Government policy ƒ )
   - b. Trend ƒ )
   - c. Competition ƒ )
   - d. All of them ƒ )

3. Do you follow the standard format while designing the deposit & investment policy?

a. Yes ƒ )

b. No ƒ )

4. Do you develop any specific portfolio while making investment?

a. Yes ƒ )

b. No ƒ )

5. Do the deposit & investment policy prepared in the past providing ultimate benefits to your Bank?

a. High ƒ )

b. Moderate ƒ )

c. Low ƒ )

6. Do you review your deposit & investment policy?

a. Yearly ƒ )

b. Half yearly ƒ )

c. Quarterly ƒ )

7. Does the deposit & investment policy implemented properly?

a. Yes ƒ )

b. No ƒ )

8. Does the government policy affect the deposit & investment policy?

a. Yes ƒ )

b. No ƒ )

9. Is bank able to collect enough funds for required investment policy?

a. Yes ƒ )

b. No ƒ)

10. Is bank able to maintain to the cash balance in local currency in the vault as prescribed by NRB?

a. Yes ƒ )

b. No ƒ )

**ANNEX - B**

**Annexure B.1**

**Deposit Position of SCBNL**

*(Rs. In 000)*

| FY | Current | Margin | Saving | Fixed | Call | Other | TD | Change % |
|---|---|---|---|---|---|---|---|---|
| 2004/05 | 4356337 | 236579 | 13030929 | 1416382 | 294865 | - | 19335094 | - |
| 2005/06 | 4681937 | 509421 | 14597674 | 2136307 | 1135691 | - | 23061032 | 19.27% |
| 2006/07 | 4794534 | 486101 | 15244384 | 3196489 | 925510 | - | 24647020 | 6.88% |
| 2007/08 | 6174560 | 474043 | 17856134 | 3301013 | 1938245 | - | 29743998 | 20.68% |
| 2008/09 | 5752096 | 377959 | 19187636 | 7101697 | 3001566 | 450767 | 35871721 | 20.6% |
| 2009/10 | 9763154 | 251242 | 12430009 | 9175070 | 3563244 | - | 35182721 | (1.92%) |

*Source: Annual Report of SCBNL 2004 to 2010*

**Annexure B.2**

**Deposit Position of NABIL**

*(Rs. In 000)*

| FY | Current | Margin | Saving | Fixed | Call | Other | TD | Change % |
|---|---|---|---|---|---|---|---|---|
| 2004/05 | 2799184 | 296976 | 7026334 | 2078535 | 2341328 | 44249 | 14589606 | - |
| 2005/06 | 2910589 | 322899 | 8770759 | 3449094 | 3851159 | 42896 | 19347396 | 32.61% |
| 2006/07 | 3395239 | 312060 | 10187354 | 5435189 | 3961633 | 50810 | 23342285 | 20.65% |
| 2007/08 | 5284368 | 361782 | 12159966 | 8464086 | 5563440 | 81385 | 31915047 | 36.73% |
| 2008/09 | 5480533 | 463015 | 14620407 | 8310708 | 8438271 | 35321 | 37348255 | 17% |
| 2009/10 | 7904619 | 629857 | 13783585 | 14711158 | 9295057 | 86424 | 46410700 | 24.26% |

*Source: Annual Report of NABIL 2004 to 2010*

## Annexure B. 3

## Nabil Bank Limited (NABIL)

*(Rs. In Million)*

| FY | Current Deposit | Fixed Deposit | Saving Deposit | Call Deposit | Margin | Total Deposit | Cash & Bank | Inv. in Govt. Securities | Inv. on Shares & Debentures | CA | TA | TI | Loan & Advance | Total Working Fund | NP | TIE | TIP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2004/05 | 2799.18 | 2078.54 | 7026.33 | 2341.33 | 296.976 | 14856.61 | 559.38 | 2418.43 | 1859.52 | 12427.31 | 17064.08 | 4275.53 | 10586.17 | 17064.08 | 520.11 | 1068.75 | 243.54 |
| 2005/06 | 2910.59 | 3449.09 | 8770.72 | 2851.16 | 322.899 | 19347.4 | 630.28 | 2301.46 | 3879.2 | 15832.35 | 22329.97 | 6178.53 | 12922.54 | 22329.97 | 635.26 | 1310 | 357.16 |
| 2006/07 | 3395.24 | 5435.19 | 10187.35 | 3961.63 | 312.060 | 23342.29 | 1399.83 | 4808.35 | 4147.96 | 18021.18 | 27253.39 | 8945.31 | 15545.78 | 27253.39 | 673.96 | 1587.76 | 555.7 |
| 2007/08 | 5284.368 | 8464.086 | 12159.966 | 5563.440 | 361.782 | 31915.05 | 2671.14 | 4646.89 | 5332.18 | 26594.95 | 37132.76 | 9939.77 | 21365.05 | 37132.76 | 746.47 | 1978.7 | 758.44 |
| 2008/09 | 5480.533 | 8310.708 | 14620.407 | 8438.271 | 463.015 | 37348.26 | 3372.52 | 3706.1 | 7168.71 | 32380.04 | 43867.40 | 10826.38 | 27589.93 | 43867.40 | 1031.05 | 2798.49 | 1153.28 |
| 2009/10 | 7904.619 | 14711.158 | 13783.585 | 9295.057 | 629857 | 46410.70 | 1400.1 | 7941.56 | 5740.82 | 37699.78 | 52150.24 | 13670.92 | 32268.87 | 52150.24 | 1139.10 | 4047.73 | 1960.11 |

## Annexure B. 4

## Standard Chartered Bank Nepal Limited (SCBNL)

*(Rs. In Million)*

| FY | Current Deposit | Fixed Deposit | Saving Deposit | Call Deposit | Margin | Total Deposit | Cash & Bank | Inv. in Govt. Securities | Inv. on Shares & Debentures | CA | TA | TI | Loan & Advance | Total Working Fund | NP | TIE | TIP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2004/05 | 4356.34 | 1416.38 | 13030.93 | 311.03 | 236.579 | 19363.47 | 1111.11 | 7203.07 | 2499.48 | 12079.13 | 21781.68 | 9702.55 | 8143.21 | 21781.68 | 536.24 | 1058.68 | 254.13 |
| 2005/06 | 4681.94 | 2136.31 | 14597.67 | 1135.69 | 509.421 | 23061.03 | 1276.24 | 8644.86 | 4202.68 | 12827.49 | 25776.33 | 12847.54 | 8935.42 | 25776.33 | 658.76 | 1189.6 | 303.2 |
| 2006/07 | 4794.53 | 3196.49 | 15244.38 | 825.51 | 486.101 | 24647.02 | 2021.02 | 7107.94 | 6445.29 | 14917.87 | 28596.69 | 13553.23 | 10502.64 | 28596.69 | 691.67 | 1411.98 | 413.06 |
| 2007/08 | 6174.560 | 3301.013 | 17856.134 | 1938.245 | 474.043 | 29744.00 | 2050.25 | 8137.61 | 5789.58 | 19315.71 | 33335.79 | 13902.82 | 13718.60 | 33335.79 | 818.92 | 1591.20 | 471.73 |
| 2008/09 | 5752.096 | 7101.70 | 19187.636 | 3001.566 | 377.959 | 35871.72 | 3137.16 | 9998.66 | 10261.74 | 20214.06 | 40066.57 | 20236.12 | 13679.76 | 40066.57 | 1025.11 | 1887.22 | 543.79 |
| 2009/10 | 9763.154 | 9175.07 | 12430.009 | 3563.244 | 251.242 | 35182.72 | 1929.31 | 13322.56 | 11340.38 | 19572.42 | 40213.32 | 19847.51 | 15956.96 | 40213.32 | 1085.87 | 2042.11 | 575.74 |

# Annexure B. 5

## Nabil Bank Limited (NABIL)

*(Ratio in %)*

| FY | Cash & Bank to TD | Cash & Bank to CA | Inv on Gov. Securities to CA | Loan & Advance to TD | Total Investment to TD | Loan & Advance to TWF | Inv on Gov. Securities to TWF | Inv. on Share & Debenture to TWF | Net Profit to Loan & Advance | Net Profit to TWF | Total Interest Earned to TWF | Total Interest Paid to TWF | Liquidity Risk Ratio | Credit Risk Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2004/05 | 3.77 | 4.50 | 19.46 | 71.26 | 28.78 | 62.04 | 14.17 | 10.90 | 4.91 | 3.05 | 6.26 | 1.43 | 3.77 | 87.09 |
| 2005/06 | 3.26 | 3.98 | 14.54 | 66.79 | 31.93 | 57.87 | 10.31 | 17.37 | 4.92 | 2.84 | 5.87 | 1.60 | 3.26 | 85.54 |
| 2006/07 | 6.00 | 7.77 | 26.68 | 66.60 | 38.32 | 57.04 | 17.64 | 15.22 | 4.34 | 2.47 | 5.83 | 2.04 | 6.00 | 89.86 |
| 2007/08 | 8.37 | 10.04 | 17.47 | 66.94 | 31.14 | 57.54 | 12.51 | 14.36 | 3.49 | 2.01 | 5.33 | 2.04 | 8.37 | 84.31 |
| 2008/09 | 9.03 | 10.42 | 11.45 | 73.87 | 28.99 | 62.90 | 8.45 | 16.34 | 2.35 | 2.35 | 6.34 | 2.63 | 9.03 | 87.57 |
| 2009/10 | 3.02 | 3.71 | 21.07 | 69.53 | 29.46 | 61.88 | 15.23 | 11.09 | 3.53 | 2.18 | 7.76 | 3.76 | 3.02 | 88.10 |
| Mean | 5.58 | 6.74 | 18.45 | 69.17 | 31.4 | 59.88 | 13.05 | 15.43 | 3.92 | 2.48 | 6.23 | 2.25 | 5.68 | 87.08 |

## Annexure B. 6

## Standard Chartered Bank Nepal Limited (SCBNL)

*(Ratio in %)*

| FY | Cash & Bank to TD | Cash & Bank to CA | Inv on Gov. Securities to CA | Loan & Advance to TD | Total Investment to TD | Loan & Advance to TWF | Inv on Gov. Securities to TWF | Inv. on Share & Debenture to TWF | Net Profit to Loan & Advance | Net Profit to TWF | Total Interest Earned to TWF | Total Interest Paid to TWF | Liquidity Risk Ratio | Credit Risk Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2004/05 | 5.74 | 9.20 | 59.63 | 42.05 | 50.11 | 37.39 | 33.07 | 11.48 | 6.59 | 2.46 | 4.86 | 1.17 | 5.74 | 81.93 |
| 2005/06 | 5.53 | 9.95 | 67.39 | 38.75 | 55.71 | 34.67 | 33.54 | 16.30 | 7.37 | 2.56 | 4.62 | 1.18 | 5.53 | 84.51 |
| 2006/07 | 8.20 | 13.55 | 47.65 | 42.61 | 54.99 | 36.73 | 24.86 | 22.54 | 6.59 | 2.42 | 4.94 | 1.44 | 8.20 | 84.12 |
| 2007/08 | 6.90 | 10.61 | 42.13 | 46.12 | 46.74 | 41.15 | 24.41 | 17.37 | 5.97 | 2.46 | 4.77 | 1.42 | 6.90 | 82.86 |
| 2008/09 | 8.75 | 15.52 | 49.46 | 38.14 | 38.13 | 34.14 | 24.96 | 25.61 | 7.49 | 2.56 | 4.71 | 1.36 | 8.75 | 84.65 |
| 2009/10 | 5.48 | 9.86 | 68.07 | 45.35 | 56.41 | 39.68 | 33.13 | 28.20 | 6.80 | 2.70 | 5.08 | 1.43 | 5.48 | 89.04 |
| Mean | 6.77 | 11.45 | 52.72 | 42.17 | 50.35 | 37.29 | 29.00 | 20.25 | 6.80 | 2.53 | 4.83 | 1.33 | 6.77 | 84.52 |

## ANNEX - C

### Annexure C.1

### The Trend Analysis of Saving Deposit of SCBNL for 7 Years

| Year (X) | Deposit (Y) | $x = X - \bar{X}$ | $x^2$ | $xY$ | Trend Value $Y_c$ |
|---|---|---|---|---|---|
| 2005 | 1459 | -2 | 4 | -2918 | 1593.4 |
| 2006 | 1524 | -1 | 1 | -1524 | 1589.6 |
| 2007 | 1785 | 0 | 0 | 0 | 1585.8 |
| 2008 | 1918 | 1 | 1 | 1918 | 1582 |
| 2009 | 1243 | 2 | 4 | 2486 | 1570.6 |
| **∑X = 10035** | **∑Y=7929** | | **$\sum X^2$=10** | **∑XY = -38** | |

N = 5

$$\bar{X} = \frac{\sum X}{N} = \frac{10035}{5} = 2007$$

The Model used for liner regression is

Yc = a + bx

Where ' a' and 'b' are constant to be determined to find the position of trend of deposits.

Let, the trend line by Yc = a + bx ----------------(1)

Here,

∑X= 0 N= 5

$$a = \frac{\sum Y}{N} = \frac{7929}{5} = 1585.8$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{-38}{10} = -3.8$$

Now, substituting the value of a and b in equation (1)

The equation of trend of deposit (Y)

Yc = a + bx

Yc = 1585.8 + (-3.8) (x)

when,

X = -2 Yc = 1585.8+ (-3.8) (-2) = 1593.4

X = -1 Yc = 1585.8 + (-3.8) (-1) = 1589.6

X = 0 Yc = 1585.8+ (-3.8) (0) = 1585.8

X = 1 Yc = 1585.8+ (-3.8) (1) = 1582

X = 2 Yc = 1585.8+ (-3.8) (2) = 1578.2

The trend analysis for 5 years shows that the saving deposit has decrease in the following year.

Forecasting for the year 2010 is, 2011 is,

Yc = 1585.8 + (-3.8) (3) Yc = 1585.8+(-3.8)(4)

= 1574.4 = 1570.6

**Annexure C.2**

**The Trend Analysis of Saving Deposit of NABIL for 7 Years**

| **Year (X)** | **Deposit (Y)** | X X $x$ Z $\bar{X}$ | $x^2$ | X$Y$ | **Trend Value Yc** |
|---|---|---|---|---|---|
| 2005 | 877 | -2 | 4 | -1754 | 900.8 |
| 2006 | 1018 | -1 | 1 | -1018 | 1045.4 |
| 2007 | 1215 | 0 | 0 | 0 | 1190 |
| 2008 | 1462 | 1 | 1 | 1462 | 1334.6 |
| 2009 | 1378 | 2 | 4 | 2756 | 1479.2 |
| **∑X = 10035** | **∑Y=5950** | | **$\sum X^2$=10** | **∑XY=1446** | |

N = 5

$$\bar{X} \text{ X } \frac{X}{N} \text{ X } \frac{10035}{5} \text{ X } 2007$$

The Model used for liner regression is

Yc = a + bx

where ' a' and 'b' are constant to be determined to find the position of trend of deposits.

let, the trend line by Yc = a + bx----------------(1)

When,

∑X= 0 N= 5

$$a \text{ X } \frac{Y}{N} \text{ X } \frac{5950}{5} \text{ X } 1190$$

$$b\,\mathrm{X}\frac{XY}{NX\,2}\;\;\mathrm{X}\frac{1446}{10}\;\;\;\mathrm{X}\,144.6$$

Now, substituting the value of a and b in equation (1)

The equation of trend of deposit (Y)

Yc = a + bx

Yc = 1190 + 144.6 (x)

When,

X = -2 Yc = 1190 + 144.6 (-2) = 900.8

X = -1 Yc = 1190 + 144.6 (-1) = 1045.4

X = 0 Yc = 1190 + 144.6 (0) = 1190

X = 1 Yc = 1190 + 144.6 (1) = 1334.6

X = 2 Yc = 1190 + 144.6 (2) = 1479.2

The trend analysis for 5 years shows that the saving deposit has increase in the following year.

Forecasting for the year 2010 is, 2011 is,

Yc = 1190 + 144.6 (3) Yc = 1190+144.6 (4)

= 1623.8 = 1768.4

## Annexure C.3

## The Trend Analysis of Fixed Deposit of SCBNL for 7 Years

| **Year (X)** | **Deposit (Y)** | x X $x$ Z $\bar{X}$ | $x^2$ | x$Y$ | **Trend Value Yc** |
|---|---|---|---|---|---|
| 2005 | 213 | -2 | 4 | -426 | 138 |
| 2006 | 319 | -1 | 1 | -319 | 317.9 |
| 2007 | 330 | 0 | 0 | 0 | 497.8 |
| 2008 | 710 | 1 | 1 | 710 | 1217.4 |
| 2009 | 917 | 2 | 4 | 1834 | 857.6 |
| **∑X = 10035** | **∑Y=2489** | | **$\sum X^2$=10** | **∑XY=1799** | |

N = 5

$$\bar{X} \text{ X } \frac{X}{N} \text{ X } \frac{10035}{5} \text{ X } 2007$$

The Model used for liner regression is

Yc = a + bx

where ' a' and 'b' are constant to be determined to find the position of trend of deposits.

let, the trend line by Yc = a + bx ----------------(1)

here,

∑X= 0 N= 5

$$a \text{ X } \frac{Y}{N} \text{ X } \frac{2489}{5} \text{ X } 497.8$$

$$b \text{ X } \frac{XY}{NX\,2} \text{ X } \frac{1799}{10} \text{ X } 179.9$$

Now, substituting the value of a and b in equation (1)

The equation of trend of deposit (Y)

Yc = a + bx

Yc = 497.8 + 179.9 (x)

When,

X = -2 Yc = 497.8 + 179.9 (-2) = 138

X = -1 Yc = 497.8 + 179.9 (-1) = 317.9

X = 0 Yc = 497.8 + 179.9 (0) = 497.8

X = 1 Yc = 497.8 + 179.9 (1) = 677.7

X = 2 Yc = 497.8 + 179.9 (2) = 857.6

The trend analysis for 5 years shows that the fixed deposit has increase in the following year.

Forecasting for the year 2010 is, 2011 is,

Yc = 497.8 + 179.9 (3) Yc = 497.8+179.9(4)

= 1037.5 =1217.4

**Annexure C.4**

**The Trend Analysis of Fixed Deposit of Nabil bank Ltd for 7 Years**

| Year (X) | Deposit (Y) | X X X Z $\bar{X}$ | $x^2$ | $xy$ | Trend Value Yc |
|---|---|---|---|---|---|
| 2005 | 344 | -2 | 4 | -688 | 298.6 |
| 2006 | 543 | -1 | 1 | -543 | 552.8 |
| 2007 | 846 | 0 | 0 | 0 | 807 |
| 2008 | 831 | 1 | 1 | 831 | 1061.2 |
| 2009 | 1471 | 2 | 4 | 2942 | 1315.4 |
| **∑X = 10035** | **∑Y=4035** | | **$\sum X^2$=10** | **∑XY= 2542** | |

N = 5

$$\bar{X} \ X \ \frac{X}{N} \ X \ \frac{10035}{5} \ X \ 2007$$

The Model used for liner regression is

Yc = a + bx

where ' a' and 'b' are constant to be determined to find the position of trend of deposits.

let, the trend line by Yc = a + bx ----------------(1)

here,

∑X= 0 N= 5

$$a \text{ X} \frac{Y}{N} \text{ X} \frac{4035}{5} \quad \text{X } 807$$

$$b \text{ X} \frac{XY}{NX\,2} \quad \text{X} \frac{2542}{10} \quad \text{X } 254.2$$

Now, substituting the value of a and b in equation (1)

the equation of trend of deposit (Y)

Yc = a + bx

Yc = 807 + 254.2(x)

when,

X = -2 Yc = 807 + 254.2 (-2) = 298.6

X = -1 Yc = 807 + 254.2 (-1) = 552.8

X = 0 Yc = 807 + 254.2 (0) = 807

X = 1 Yc = 807 + 254.2 (1) = 1061.2

X = 2 Yc = 807 + 254.2 (2) = 1315.4

The trend analysis for 5 years shows that the fixed deposit has increase in the following year.

| Forecasting for the year 2010 is, | 2011 is, |
|---|---|
| Yc = 807 + 254.2 (3) | Yc = 807+254.2(4) |
| = 1569.6 | = 1823.8 |

**Annexure C.5**

**The Trend Analysis of Current Deposit of SCBNL for 7 Years**

| Year (X) | Deposit (Y) | X X $X$ Z $\bar{X}$ | $X^2$ | X$Y$ | Trend Value Yc |
|---|---|---|---|---|---|
| 2005 | 468 | -2 | 4 | -936 | 400.6 |
| 2006 | 479 | -1 | 1 | -479 | 511.8 |
| 2007 | 617 | 0 | 0 | 0 | 623 |
| 2008 | 575 | 1 | 1 | 575 | 734.2 |
| 2009 | 976 | 2 | 4 | 1952 | 845.4 |
| **∑X = 10035** | **∑Y=3115** | | **∑X²=10** | **∑XY=1112** | |

N = 5

$$\bar{X} \text{ X} \frac{X}{N} \quad \text{X} \frac{10035}{5} \quad \text{X } 2007$$

The Model used for liner regression is

Yc = a + bx

where ' a' and 'b' are constant to be determined to find the position of trend of deposits.

let, the trend line by Yc = a + bx ----------------(1)

here,

∑X= 0 N= 5

$$a\ X \frac{Y}{N} X \frac{3115}{5} \quad X\ 623$$

$$b\ X \frac{XY}{NX\,2} \quad X \frac{1112}{5} \quad X\ 111.2$$

Now, substituting the value of a and b in equation (1)

the equation of trend of deposit (Y)

Yc = a + bx

Yc = 623 + 111.2(x)

when,

X = -2 Yc = 623 + 111.2 (-2) = 400.6

X = -1 Yc = 623 + 111.2 (-1) = 511.8

X = 0 Yc = 623 + 111.2 (0) = 623

X = 1 Yc = 623 + 111.2 (1) = 734.2

X = 2 Yc = 623 + 111.2 (2) = 845.4

The trend analysis for 5 years shows that the current deposit has increase in the following year.

| | |
|---|---|
| Forecasting for the year 2010 is, | 2011 is |
| Yc = 623 + 111.2 (3) | Yc = 623+111.2(4) |
| = 956.6 | = 1067.8 |

**Annexure C.6**

**The Trend Analysis of Current Deposit of Nabil bank Ltd for 7 Years**

| Year (X) | Deposit (Y) | x X $X$ Z $\bar{X}$ | $x^2$ | x$Y$ | Trend Value Yc |
|---|---|---|---|---|---|
| 2005 | 291 | -2 | 4 | -582 | 257.8 |
| 2006 | 339 | -1 | 1 | -339 | 378.5 |
| 2007 | 528 | 0 | 0 | 0 | 499.2 |
| 2008 | 548 | 1 | 1 | 548 | 619.9 |
| 2009 | 790 | 2 | 4 | 1580 | 740.6 |
| **∑X = 10035** | **∑Y=2496** | | **∑X$^{2=}$10** | **∑XY=1207** | |

N = 5

$$\bar{X} \text{ X } \frac{X}{N} \text{ X } \frac{10035}{5} \text{ X } 2007$$

The Model used for liner regression is

Yc = a + bx

where ' a' and 'b' are constant to be determined to find the position of trend of deposits.

let, the trend line by Yc = a + bx ----------------(1)

here,

∑X= 0 N= 5

$$a \text{ X } \frac{Y}{N} \text{ X } \frac{2496}{5} \text{ X } 499.2$$

$$b \text{ X } \frac{XY}{NX\,2} \text{ X } \frac{1207}{10} \text{ X } 120.7$$

Now, substituting the value of a and b in equation (1)

the equation of trend of deposit (Y)

Yc = a + bx

Yc = 499.2 + 120.7 (x)

when,

X = -2 Yc = 499.2 + 120.7 (-2) = 257.8

X = -1 Yc = 499.2 + 120.7 (-1) = 378.5

X = 0 Yc = 499.2 + 120.7 (0) = 499.2

X = 1 Yc = 499.2 + 120.7 (1) = 619.9

X = 2 Yc = 499.2 + 120.7 (2) = 740.6

The trend analysis for 5 years shows that the saving deposit has increase in the following year.

Forecasting for the year 2010 is, 2011 is,

Yc = 499.2 + 120.7 (3) Yc = 499.2+120.7(4)

= 861.3 = 982

**Annexure C.7**

**The Trend Analysis of Margin Deposit of SCBNL Ltd for 7 Years**

| **Year (X)** | **Deposit (Y)** | x X $X$ Z $\bar{X}$ | $x^2$ | X$Y$ | **Trend Value Yc** |
|---:|---:|---:|---:|---:|---:|
| 2005 | 50 | -2 | 4 | -100 | 53.6 |
| 2006 | 48 | -1 | 1 | -48 | 47.5 |
| 2007 | 47 | 0 | 0 | 0 | 41.4 |
| 2008 | 37 | 1 | 1 | 37 | 35.3 |
| 2009 | 25 | 2 | 4 | 50 | 29.2 |
| **∑X = 10035** | **∑Y=207** | | **$\sum X^2$= 10** | **∑XY=-61** | |

N = 5

$\bar{X}$ X $\frac{X}{N}$ X $\frac{10035}{5}$ X 2007

The Model used for liner regression is

Yc = a + bx

where ' a' and 'b' are constant to be determined to find the position of trend of deposits.

let, the trend line by Yc = a + bx ----------------(1)

here,

∑X= 0 N= 5

$a$ X $\frac{Y}{N}$ X $\frac{207}{5}$ X 41.4

$$b\,X\frac{XY}{NX\,2}\quad X\frac{-61}{10}\qquad X\,-6.1$$

Now, substituting the value of a and b in equation (1)

the equation of trend of deposit (Y)

Yc = a + bx

Yc = 41.4 + (-6.1) (x)

when,

X = -2 Yc = 41.4 + (-6.1) (-2) = 53.6

X = -1 Yc = 41.4 + (-6.1) (-1) = 47.5

X = 0 Yc = 41.4 + (-6.1) (0) = 41.4

X = 1 Yc = 41.4 + (-6.1) (1) = 35.3

X = 2 Yc = 41.4 + (-6.1) (2) = 29.2

The trend analysis for 5 years shows that the Margin deposit has decrease in the following year.

Forecasting for the year 2010 is,

Yc = 41.4 + (-6.1) (3)

= 23.1

2011 is

Y= 41.4+(-6.1) (4)

= 17

**Annexure C.8**

**The Trend Analysis of Margin Deposit of Nabil Bank Ltd for 7 Years**

| **Year (X)** | **Deposit (Y)** | X X $X$ Z $\overline{X}$ | $X^2$ | $XY$ | **Trend Value Yc** |
|---|---|---|---|---|---|
| 2005 | 32 | -2 | 4 | -64 | 26.4 |
| 2006 | 31 | -1 | 1 | -31 | 33.9 |
| 2007 | 36 | 0 | 0 | 0 | 41.4 |
| 2008 | 46 | 1 | 1 | 46 | 48.9 |
| 2009 | 62 | 2 | 4 | 124 | 56.4 |
| **∑X = 10035** | **∑Y=207** | | **∑X²= 10** | **∑XY=75** | |

N = 5

$$\bar{X}\,X\frac{X}{N}\quad X\frac{10035}{5}\qquad X\,2007$$

The Model used for liner regression is

Yc = a + bx

where ' a' and 'b' are constant to be determined to find the position of trend of deposits.

let, the trend line by Yc = a + bx ----------------(1)

here,

∑X= 0 N= 5

$$a \text{ X } \frac{Y}{N} \text{ X } \frac{207}{5} \text{ X } 41.4$$

$$b \text{ X } \frac{XY}{NX\,2} \text{ X } \frac{75}{10} \text{ X } 7.5$$

Now, substituting the value of a and b in equation (1)

the equation of trend of deposit (Y)

Yc = a + bx

Yc = 41.4 + 7.5(x)

when,

X = -2 Yc = 41.4 + 7.5 (-2) = 26.4

X = -1 Yc = 41.4 + 7.5 (-1) = 33.9

X = 0 Yc = 41.4 + 7.5 (0) = 41.4

X = 1 Yc = 41.4 + 7.5 (1) = 48.9

X = 2 Yc = 41.4 + 7.5 (2) = 56.4

The trend analysis for 5 years shows that the Margin deposit has increase in following year and increase in the 2009 year.

Forecasting for the year 2010 is , 2011 is

Yc = 41.4 + 7.5(3) Yc = 41.4+7.5(4)

= 63.9 = 71.4

## Annexure C.9

## Growth Ratios

**Growth Ratio of Total Investment** *(Rs. in Million)*

| Year | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | Growth% |
|---|---|---|---|---|---|---|---|
| NABIL | 4275 | 6178 | 8945 | 9939 | 10826 | 13670 | 26.17% |
| SCBNL | 9702 | 12847 | 13553 | 13902 | 20236 | 19847 | 15.39% |

**Growth can be calculated as follows of NABIL**

Here,

Dn = total Investment in nth year

Do = Total Investment in initial year

g = growth year

We have,

$Dn = Do\ ƒ1+g)^n$

$D_{2009/2010} = D_{2004/2005}\ ƒ1+g)^{9-4}$

$13670= 4275ƒ1+g)^5$

$ƒ1+g)^5 = 3.1977$

$1+g = 3.1977^{1/5 \text{ or } 0.2}$

$1+g = 1.2617$

$g = 26.17\%$

**Growth can be calculated as follows of SCBNL**

Here,

Dn = total Investment in nth year

Do = Total Investment in initial year

g = growth year

We have,

Dn = Do ƒ1+g)$^{n}$

$D_{2009/2010} = D_{2004/2005}$ ƒ1+g)$^{9-4}$

19847= 9702ƒ1+g)$^{5}$

ƒ1+g)$^{5}$ = 2.0457

1+g = 2.0457$^{1/5 \text{ or } 0.2}$

1+g = 1.1539

g = 15.39%

**Annexure C.10**

## NABIL Bank Ltd.

**Coefficient of Correlation between Total Deposits and Total Investment**

X = represent total Investment

Y = represent total Deposit

| **Year** | **X** | $X$ **=X-9939** | $X^{2}$ | **Y** | $Y$ **=Y-31915** | $Y^{2}$ | $XY$ |
|---|---|---|---|---|---|---|---|
| 2005 | 6178 | -3761 | 14145121 | 19347 | -12568 | 157954624 | 47268248 |
| 2006 | 8945 | -994 | 988036 | 23342 | -8573 | 73496329 | 8521562 |
| 2007 | 9939 | 0 | 0 | 31915 | 0 | 0 | 0 |
| 2008 | 10826 | 887 | 786769 | 37348 | 5433 | 29517489 | 4819071 |
| 2009 | 13670 | 3731 | 13920361 | 46410 | 14495 | 210105025 | 54080845 |
| | | **∑X =-137** | **∑X$^{2}$= 29840287** | | **∑Y = -1213** | **∑Y$^{2}$ =471073467** | **∑XY=114689726** |

A) Average Investment ( $\overline{X}$ ) = $A\Gamma \frac{X}{N}$

$= \frac{9939 - 137}{5}$

= 9911.6

B) Average Deposit ( $\bar{Y}$ ) = $A \Gamma \dfrac{X}{N}$

$= 31915 - 1213$

$5$

$= 31672.4$

C) Calculation of S.D of Investment:-

$$\text{S.D} (\exists\ _x) = \sqrt{\frac{X^2}{N} Z \left| \frac{X}{N} \right|^2}$$

$$= \sqrt{\frac{29840287}{5} Z \left| \frac{1213}{5} \right|^2}$$

$$= \sqrt{59680574\ Z\, 242.6}$$

$$= 7725.30$$

$$\text{C.V}_{X\,=} \frac{\exists\,|}{\bar{X}}$$

$$= \frac{7725.30}{9911.6} x100$$

$$= 77.94$$

$$\text{S.D.}( \exists\ _y) = \sqrt{\frac{Y^2}{N} Z \left| \frac{Y}{N} \right|^2}$$

$$= \sqrt{\frac{471073467}{5} Z \left| \frac{Z1213}{5} \right|^2}$$

$$= \sqrt{942146934\ Z\, 58854.76}$$

$$= 30693.45$$

$$\text{C.V}_{Y\,=} \frac{\exists\,|}{\bar{Y}}$$

$$= \frac{30693.45}{31672.4} x100$$

$$= 96.91$$

C.Vx (investment) C.Vy (Deposit)

Investment is more consistent than Deposit.

Calculation of Regression equation:-

Let, the regression equation of Y on X be

$Y-\bar{Y} = b_{YX}(X-\bar{X})$------------------(1)

And the regression equation of X on Y be

$X-\bar{X} = b_{XY}(Y-\bar{Y})$-------------------- (2)

$$b_{YX} = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2}$$

$$= \frac{5x114689726 - (137)(1213)}{5x29840287 - (137)^2}$$

$$= \frac{573282449}{149182666}$$

$= 3.8428$

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

$$= \frac{5x114689726 - (137)(1213)}{5x471073467 - (1213)^2}$$

$$= \frac{573282449}{2353895966}$$

$= 0.24$

Then the regression equation of Y on X be

$Y-\bar{Y} = b_{YX}(X-\bar{X})$

Y – 31672.4 = 3.8428 ( X - 9911.6)

Y – 31672.4 = 3.8428X – 38088.2965

Y = 3.8428X - 38088.2965+ 31672.4

Y = 3.8428X – 6415.8965 ------------(3)

And the the regression equation of X on Y be

$X-\bar{X} = b_{XY}(Y-\bar{Y})$

X - 9911.6= 0.24 (Y – 31672.4)

X = 0.24Y – 7601.376 + 9911.6

X = 0.24Y +2310.224----------- (4)

Now substituting the value of Y on equation (4)

X = 0.24Y +2310.224

X = 0.24 (3.8428X – 6415.8965) +2310.224

X = 0.92227X -1539.81516 +2310.224

X - 0.92227X = 770.4088

0.07773X = 770.4088

$$X = \frac{770.4088}{0.07773}$$

X = 9911.3444

Again substituting the value of X on equation (3)

Y = 3.8428X – 6415.8965

= 3.8428 (9911.3444) – 6415.8965

= 31671.42

Correlation Co-efficient (r) = $\sqrt{byx.bxy}$

= $\sqrt{3.8428x0.24}$

= 0.96

Since r is less than 1. So the correlation between investment and Deposit is positive correlation of Nabil Bank Ltd.

**Annexure C.11**

## SCBNL

**Coefficient of Correlation between Total Deposits and Total Investment**

X = Represent total Investment

Y = Represent total Deposit

| Year | X | $X$ =X-13902 | $X^2$ | Y | $Y$ =Y-29743 | $Y^2$ | $XY$ |
|---|---|---|---|---|---|---|---|
| 2005 | 12847 | -1055 | 1113025 | 23061 | -6682 | 44649124 | 7049510 |
| 2006 | 13553 | -349 | 121801 | 24647 | -5096 | 25969216 | 1778504 |
| 2007 | 13902 | 0 | 0 | 29743 | 0 | 0 | 0 |
| 2008 | 20236 | 6334 | 40119556 | 35871 | 6128 | 37552384 | 38814752 |
| 2009 | 19847 | 5945 | 35343025 | 35182 | 5439 | 29582721 | 32334855 |
| | | **∑X =10875** | **$\sum X^2$=76697407** | | **∑Y = -211** | **$\sum Y^2$ =137753445** | **∑XY= 79977621** |

A) Average Investment ( $\overline{X}$ ) = $A\Gamma \frac{X}{N}$

$= 13902 + \frac{10875}{5}$

$= 16077$

B) Average Deposit ( $\overline{Y}$ ) = $A\Gamma \frac{y}{N}$

$= 29743 + \frac{-211}{5}$

$= 29700.8$

C) Calculation of S.D of Investment:-

$$\text{S.D} (\exists_x) = \sqrt{\frac{X^2}{N} Z \left|\frac{X}{N}\right|^2}$$

$$= \sqrt{\frac{76697407}{5} Z \left|\frac{10875}{5}\right|^2}$$

$$= \sqrt{15339481.4 Z 4730625}$$

$$= 3257.12$$

$$\text{C.V}_{X} = \frac{\exists|}{\overline{X}}$$

$$= \frac{3257.12}{16077} x100$$

$$= 20.26\%$$

$$\text{S.D.}(\exists_y) = \sqrt{\frac{Y^2}{N} Z \left|\frac{Y}{N}\right|^2}$$

$$= \sqrt{\frac{137753445}{5} Z \left|\frac{fZ 211A}{5}\right|^2}$$

$$= \sqrt{27550689 Z 1780.84}$$

$$= 5248.71$$

$$\text{C.V}_{Y} = \frac{\exists|}{\overline{Y}}$$

$$= \frac{5248.71}{29700.8} x 100$$

$= 17.67\%$

In analyze C.V (Deposit) & C.V (Investment). Deposit is more consistent than Investment because C.V. of deposit is less than investment.

Calculation of Regression equation:-

Let, the regression equation of Y on X be

$Y - \overline{Y} = b_{YX} (X - \overline{X})$------------------(1)

And the regression equation of X on Y be

$X - \overline{X} = b_{XY} (Y - \overline{Y})$-------------------- (2)

$$b_{YX} = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{5 x 79977621 - 10875(-211)}{5 x 76697407 - (10875)^2}$$

$$= \frac{402182730}{265221410}$$

$= 1.5164$

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

$$= \frac{5 x 79977621 - 10875(-211)}{5 x 137753445 - (-211)^2}$$

$$= \frac{402182730}{688722704}$$

$= 0.5840$

then the the regression equation of Y on X be

$Y - \overline{Y} = b_{YX} (X - \overline{X})$

Y - 29700.8 = 1.5164 ( X - 16077)

Y - 29700.8 = 1.5164 X – 24379.1628

Y = 1.5164 X – 24379.1628 + 29700.8

Y = 1.5164 X + 5321.6372 ---------- (3)

And the the regression equation of X on Y be

$X - \overline{X} = b_{XY}(Y - \overline{Y})$

$X - 16077 = 0.5840\ (Y - 29700.8)$

$X = 0.5840Y - 17345.2672 + 16077$

$X = 0.5840Y - 1268.2672$ ----------- (4)

Now substituting the value of Y on equation (4)

$X = 0.5840Y - 1268.2672$

$X = 0.5840\ (1.5164\ X + 5321.6372) - 1268.2672$

$X = 0.8856X + 3107.8361 - 1268.2672$

$X - 0.8856X = 1839.5689$

$0.1144X = 1839.5689$

$$X = \frac{1839.5689}{0.1144}$$

$X = 16080.1477$

Again substituting the value of X on equation (3)

$Y = 1.5164\ X + 5321.6372$

$= 1.5164\ (16080.1477) + 5321.6372$

$= 29705.5732$

Correlation Co-efficient (r) = $\sqrt{byx.bxy}$

$= \sqrt{1.5164\ x 0.5840}$

$= \sqrt{0.8856}$

$= 0.9411$

Since r is less than 1. So the correlation between investment and Deposit is positive correlation of SCBNL.