

# CHAPTER – I

## INTRODUCTION

### 1.1 Background of the Study

The economy of a nation depends on the use of available resources in an efficient way. Proper utilization of assets appreciates in wealth position of individual and country as well. To mobilize available resource, there should be proper planning, efficient management, far sighting strategy, good financial management and up-to-date information. Integrated and speedily development of the country is possible only when competitive banking and financial service reaches nook and corners of the country. To grow financial activities, it requires to develop the banking habit of the community as well as potentially strong lending opportunities. Simply, Bank is an institution whose main function is to accept deposit and invest it. Bank collects money from public by providing attractive sound interest and can earn profit by lending it on mainly in business organization, industrial, agricultural sectors etc. So, we can say the main task of commercial bank is to mobilize idle resources in productive areas by collecting it from scattered sources and generating profit. Banking plays significant role in the economic development of country. Banks role as intermediaries channeling between saving and investment and fulfill the credit needs of customer as well as investment requirement of savers. It is clear that efficient and stable banking systems are crucial for an orderly economic growth. The development of country largely depends on the level of financial development.

Successful formulation of investment policy and its proper utilization or implementation is the prime requisite for the development of performance of banks and other financial institution. Good Investment policy has positive impact on economic development of the country and vice-versa. A healthy development of any banks depends heavily upon its investment policy. A sound and viable investment policy is one of the major effective for the economy to attain the economic objectives directed towards the acceleration of the pace of development. Bank should attract to its customer by implementing best or competitive investment policy. It helps to increase the quality of banking services as well

as volume of quality deposits, loan and investment. Investment management of bank is operating as per investment policy adopted by bank. The best investment policy helps to minimize risk, to make profit and to increase efficiency of investment operation.

Economic development is the crucial factor for development of any country. Nepal is a least developed country; economic growth and economic sector development is essential for developing the country. Capital formation and its proper utilization play a paramount role for rapid economic development. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to various sectors. "Investment portfolio is one such tool that helps for proper utilization of resources. A portfolio is usually defines as a combination of assets. It is a collection of securities. Portfolio means the lists of holding in securities owned by an investor or institution" (Oxford Dictionary of Finance and Banking, New Edition, 1997). Portfolio theory deals with the selection of optimal portfolios: that is portfolio provides the highest possible return for any specified degree of risk or the lowest possible risk for any specified return. Portfolio theory has been developed for the financial assets. Thus making investment from the selected optimal portfolio i.e. the portfolio that provides the highest rate of return with least possible amount of risk is the real investment portfolio.

Investment portfolio is one which the income or profit of the bank depend upon directly. Commercial banks formulate sound investment policies, which helps maximize quality and quantity of investment and eventually to the economic growth of a country. Commercial banks must follow the rules and regulation as well as directions issued by central bank. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial bank's investment are fully considered while making investment portfolio. Investment decision is one of the major decision functions of financial management.

Finally, Commercial banks and financial institutions are the backbone of the Nepalese economy at present. It plays vital role in capital formulation, proper utilization of collected fund, providing various type of banking services. Mobilization of saving is most

essential for the economic growth of the country. Commercial banks are the mediator of mobilizing such savings. Their sound performance makes them able to mobilize such fund in a proper way. Development of the country directly related to the volume of investment in productive sectors.

### **1.1.1 Development of Commercial Banks in Nepal**

"A commercial bank refers to such type of bank other than specified banks related to co-operative, agricultural, industrial and other which deals in money exchange, accepting deposits and advancing loans etc" (Commercial Bank Act 2031 B.S). The commercial banks are those banks, which pool together the savings of the community and arrange them for the productive use. Commercial bank transfers monetary sources from the savers to users. They provide loans and advances from the money, which they receive through deposits.

The history of modern banking system is not so long in Nepal. In depth, evidence of money lending function was also found in practice before 8<sup>th</sup> century. In those days people use to borrow money from money lenders and paying some interest. In 14<sup>th</sup>/century, Mall King Jayasthiti Malla divided people in 64 categories as per working occupation. Which one of them was "Tanka Dhari"; they practiced monetary transaction or money lending business. It shows that lending process was prevailing during the Malla rule in Nepal.

During the period of Rana rule, Prime Minister Ranodip established a financial institution "Tejarath Adda". Prior to establishment of Nepal Bank Ltd., certain extent of banking needs of people was fulfilled by the institution. Which was to supply credit to government officials at 5 percent rate of interest, thereafter, they provided loan to general people against security of gold, silver & ornaments. Tejarath expanded the credit facilities by opening some branches.

Tejarath could not fulfill the credit needs of the whole society. It was a government institution that benefited government officials only. So the general people had to depend

on moneylender. To make free the rural people from the grips of lenders and to develop trade and industry in the country the need for commercial bank was realized in the country.

Nepal's banking history had begun with the establishment of Nepal Bank Ltd. in 1937 AD with 10 million of authorized capital and 842 thousand of paid up capital. It is the first commercial bank in Nepal with semi government equity i.e. 51% of government ownership. After establishment of NBL, it replaced Tejarath Adda by taking over its operation and over its limitation. It has done pioneering function in spreading the banking habits among people.

To manage and control banking system development, monetary policy development, to regulate issue of currency and to mobilize capital for economic development "Nepal Rastra Bank" came into existence as central bank of Nepal in 1956 under Nepal Rastra Bank Act, 2012 BS. After this, NRB diverted its attention towards development of banking system by formulating relevant policies & procedure. Prior to this, there was no such formal organization to control and regulate the monetary system in the country. It is an autonomous body and fully owned by the government of Nepal, who works for the development of banking system in the country. NRB started issuing currency in 1959. To fulfill the growing credit requirement of the country, the commercial bank "Rastriya Banijya Bank" was established in 1966 under RBB Act, 1964 with fully government equity that of authorized capital of Rs. 10 million and paid up capital of Rs. 2.5 million.

In 1980, the government introduced "Financial Sector Reforms". Government allowed the entry of foreign banks in Nepal as joint venture bank entered to accelerate the economic development of nation & to service high banking system. The first joint venture is Nabil Bank Ltd. (Former Name – Nepal Arab Bank Ltd.) is established in 1984. 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 society have come into existence to cater the financial needs of

the country thereby assisting financial development of the country. At present, some banks are name changed like Nepal Arab Bank Ltd. is changed to Nabil Bank Ltd., similarly, Nepal Grindlays Bank Ltd., Nepal Indosuez Bank Ltd. and Nepal Bank of Ceylon Ltd. are known as Standard Chartered Bank Nepal Ltd., Nepal Investment Bank Ltd. and Nepal Credit and Commerce Bank Ltd. Respectively.

### **List of licenced Commercial Banks in Nepal**

<b>S.No.</b>	<b>Commercial Banks</b>	<b>Operation Date</b>	<b>Head Office</b>
1	Nepal Bank Ltd	1994 /7 /30	Kathmandu
2	Rastriya Banijya Bank	2022/ 10/10	Kathmandu
3	Nabil Bank Ltd	2041/3/29	Kathmandu
4	Nepal Investment Bank	2042/11/16	Kathmandu
5	Standard Chartered Bank	2043/10/16	Kathmandu
6	Himalayan Bank Ltd	2049/10/15	Kathmandu
7	Nepal SBI Bank Ltd	2050/3/23	Kathmandu
8	Nepal Bangladesh Bank	2050/3/3	Kathmandu
9	Everest Bank Ltd.	2051/7/1	Kathmandu
10	Bank of Kathmandu Ltd	2051/11/28/	Kathmandu
11	Nepal Credit & Commerce Bank	2053/6/28	Siddharthanagar
12	Lumbini Bank Ltd	2055/4/1	Narayangadh
13	Nepal Industrial & Commercial Banks	2055/4/5	Biratnagar
14	Kumari Bank Ltd	2057/12/21	Kathmandu
15	Machapuchre Bank Ltd	2057/6/17	Pokhara
16	Laxmi Bank Ltd	2058/12/21	Birgunj
17	Siddhartha Bank Ltd	2059/9/9	Kathmandu
18	Global Bank Ltd	2063/6/2	Birgunj Parsa
19	Citizens Bank	2064/4/20	Kathmandu
20	NMB Bank Ltd	2053/8/11	Kathmandu
21	Prime Commercial Bank Ltd	2064/6/7	Kathmandu
22	Sunrise Bank Ltd	2064/6/25	Kathmandu
23	Bank of Asia Nepal Ltd.	2064/6/25	Kathmandu
24	Development Credit Bank Ltd.	2057/10/10	Kathmandu
25	Agriculture Development Bank	2024	Kathmandu
26	Kist Bank	2059	Kathmandu

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

Taking an overview of financial institution providing banking facility in Nepal, there are 25 Commercial Banks, 58 Development Banks, 5 Rural Development Banks, 12 Micro Credit Development Banks, 46 Non Government Organization 16 Saving and Credit Co-operative Societies, 78 Finance Companies and Financial intermediary Licensed By NRB. (NRB report mid July 2008)

### **1.1.2 Functions of Commercial Banks**

Banks collect unused money from public by providing attractive sound interest and can earn profit by lending it on mainly in business organization, industrial and agricultural sectors and investing in government bonds. So, the main function of commercial banks is to mobilize idle resources in productive areas by collecting it from scattered sources and generating profit. There are many functions performed by commercial banks, which may be summarized follows:

#### **(i) Accepting Deposits**

Commercial banks accept all kinds of deposits, especially under three main headings namely; current, saving and fixed deposits.

##### **a. Current Deposit**

This is also known as demand deposits whereby the banker incurs the obligations of paying legal tender on demand. Thus the bank does not pay any interest for the deposits.

##### **b. Saving Deposit**

Saving deposit is the deposit, which collected from general savers, small depositors and low income depositors. The bank usually pays small interest to the depositors against their deposits.

##### **c. Fixed Deposit**

Fixed deposit is one of those in which the customer money is deposited for a fixed period of time; generally by those who do not need money for a stipulated time period. Thus bank pays higher rate of interest to the depositor.

## **(ii) Advancing Loans**

Commercial bank collects funds by taking all kinds of deposits, and then it mobilizes by providing loans and advances. Direct loans and advances are given to all types of persons against the personal security of the borrowers or against the security of movable and immovable properties. Loans are granted by banks in four forms, namely:

- J Overdrafts
- J Direct Loans
- J Cash Credit
- J Discounting bill of exchange

## **(iii) Agency Services**

A commercial bank provides a range of investment services. It undertakes to buy and sell securities on behalf of its clients. The banks undertake the payment of subscriptions, premium rents etc. It collects checks, bills, promissory notes, dividends, interest etc. on behalf of the customers. The bank charges a small amount of commission for those services. It also acts as correspondent or representative of its customers, other banks and financial institutions.

## **(iv) Credit Creation**

Credit creation is the very important function of the commercial banks. They accept deposits and advance loans. When the bank advances loans, it opens an account to draw the money by cheque according to borrower's needs.

## **(v) Other Functions**

Other functions of the commercial banks are as follows:

### **a. Assist in Foreign Trades**

Commercial bank discounts the bills of exchange drawn by Nepalese exporters on the foreign importers and enables the exporters to receive money in the native currency.

## **b. Offers Security Brokerage Services**

Many commercial banks have begun to market security brokerage services offering customers the opportunity to buy the stocks, bonds and other securities without having to go to a security dealer or broker.

## **c. Financial Advising**

Many banks offer a wide range of financial advisory services from helping in financial planning and consulting business managers.

### **1.1.3 Concept of Joint Venture Bank**

The concept of joint venture bank is a new innovation in finance and it is on growing stage, mostly in developing countries. Joint venture means "A business contract of management effort between two persons, companies or organizations involving risk and benefit sharing" (Ahuja, 1992).

So, joint venture is the process of sharing risk and return from a specific venturing.

“A joint venture is the joining of forces between two or more enterprises for the purposes carrying out a specific operation (industrial or commercial investment, production or trade)” (Gupta D.P 1984). In Nepal, there has been substantial growth in the number of joint venture banks since 1985. The main reason behind this is the government liberal policy of allowing foreign joint venture banks to operate in Nepal. “Government’s liberalization policy also encourages 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 joint venture banks” (Shrestha 1990).

### **1.1.4 Role of Joint Venture Banks in Nepal**

In the year 1980’s when the government introduced "Financial Sector Reform", Nepal allowed the entry of foreign banks as joint ventures with up to maximum 50% equity participation. A meaningful step towards financial liberalization was undertaken in the

fiscal year 1986 with the objective of expediting the process of economic development under structural adjustments program and major reforms including liberalization of interest rate strengthening of banking operation of a shift from direct to indirect monetary control instruments.

“The existence of foreign joint venture banks has brought an environment of healthy competition in front of the existing commercial banks. The increased competition forces the existing banks to improve their quality and extend their services by simplifying procedures and by training, motivating their own staff to respond to the new challenges (Chopra S.1990)”.

The main roles of joint venture banks of Nepal are pointed out below:

- ) Emergence of healthy competition
- ) Foreign investment
- ) New banking techniques
- ) Contribution to national economy

### **1.1.5 Commercial Banks and Investment Portfolio**

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services (American Institute of Banking 1972)”.

Commercial banks are the heart of the financial system. It plays vital role in capital formulation and proper utilization of collected fund, providing services in domestic and international trade. Without these the operation of economy can't be succeeded. The commercial banks consequently have a specific role to play in the long process of economic growth. A commercial bank must mobilize its deposits and other funds to profitable, secured, stable and marketable sector. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring that maximum return with minimum risk which ultimately leads the bank to the path of success. Thus, investment is the most important function of commercial banks.

The success of bank heavily depends upon the proper management of its invest-able funds. So, a bank has to be very cautions while investing their funds in various sectors.

A commercial bank can maximize its volume of wealth through maximization of return on their investments and lending. So, they must invest their where they gain maximum profit. The profit of CBs mainly depends on the interest rate, volume, period of loan and nature of investment in different securities. A bank should not lay all its eggs on the same basket i.e. to minimize risk; a bank must diversify its investment on different sectors. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial bank's investment are fully considered while making investment portfolio. The investment portfolio should be carefully analyzed so that the investment should ensure minimum risk and maximum profit. So, CBs should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, investment portfolio balance term structure of the liabilities etc. while making investment decision.

#### **1.1.6 Profiles of the Banks under Study**

In this section general introduction of the banks under study is being attempted to furnish for the easy reference of the samples to the research.

##### **(i) NABIL Bank Ltd.**

Nabil bank limited is the first joint venture bank in Nepal, started operation on 12<sup>th</sup> July 1984 under company act, 1964 as first partnership of Dubai Bank Limited, Dubai. Nabil Bank had the official name Nepal Arab Bank Limited till 31<sup>st</sup> July 2001. Its equity configuration showed that Dubai Bank Ltd. (DBL) owned 50% equity partner which was transferred to Emirates Bank International Ltd., Dubai (EBIL). Later on, EBIL sold its entire stock to National Bank Ltd., Bangladesh (NBLB). So, the current equity structure is given as follows:

National Bank Ltd., Bangladesh	50 %
Nepal Industrial Development Corporation (NIDC)	10 %
Rastiya Beema Sansthan	9.66 %

Nepal Stock Exchange (NEPSE)	0.34 %
General Public Share	30 %

“Being the largest equity holder, National Bank Ltd., Bangladesh is managing the bank in accordance with the technical service agreement signed between NBLB and the bank on June 1995 ( Nepal stock exchange ltd.1997/98)”. The bank expanded its banking services towards the different regional and parts of the country by expanding its branches.

NABIL is the pioneer in introducing many innovative products and marketing concept in banking sector in Nepal with 32 branches and 42 ATM counters in all major cities. It is the only Bank having its presence at Tribhuvan International Airport, only International Airport of the country.

Nabil bank is fully equipped with modern technology which includes ATM, Credit Cards, Internet banking, Tele banking system. So the bank achieves the award “Bank of the Year 2004, Nepal” by the “The Banker”. The bank was in no. 1 position.

#### **Schedule of capital structure of NABIL Bank**

Particular	Rs.
Authorized Capital	500,000,000
Issued Capital	491,654,400
Paid up Capital	491,654,400

#### **(ii) Nepal Investment Bank Ltd.**

Nepal Investment Bank Ltd. is the changed name of Nepal Indosuez Bank Ltd., the second joint venture bank in Nepal was established in 20<sup>th</sup> November 1985 under Company Act, 1964 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. Credit Agricole Indosuez were sold their shares to the Nepalese Promoters on April 25, 2002 as per the transaction record of NEPSE.

So, its shareholder participation is as follows:

Organized Institutions	50 %
Rastriya Banijya Bank	15 %
Rastriya Beema Sansthan	15 %
General Public Shareholder	20 %

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's general meeting. The head office of NIBL is located on the Durbarmarg Kathmandu. It has 20 branches and 12 ATM counters. This bank is not a joint venture bank. It is established the great aim of spread of banking service all over the country by private sector. This bank has taken authority of commercial banking activities from Nepal Rastra Bank at B.S 2042 Magh.

The main objective of the bank is to provide loans and advances to the agriculture, industries and commerce and to provide modern banking services to the people.

#### **Schedule of Capital Structure of NIBL**

Particular	Rs
Authorized Capital	1000,000,000
Issued Capital	590,586,000
Paid up Capital	590,586,000

#### **(iii) Standard Chartered Bank Nepal Ltd.**

Standard Chartered Bank limited Nepal has been in operation in Nepal since 1987 when it was initially registered in joint venture banks. Today the bank is an integral part of Standard Chartered Group who has 75% ownership in company with 25% shares owned by the Nepalese public. The banks enjoys the status the largest international bank currently operating in Nepal ([www.standardchartered.com](http://www.standardchartered.com) Nepal ).

Standard Chartered Group employees 30000 people in over 500 locations in more than 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. It is one of the world's most international banks with a

management team comprising 79 nationalities. The bank is trusted across its network for its standard of governance and its commitment to making a difference in the communities in which it operates. SCBNL has 13 branches.

Shareholders participation is as bellows.

Standard Chartered, UK	50 %
Commercial Banks	33.34 %
General Public Shareholder	16.66 %

The main objective of the bank is to collect deposits and provide loans to agriculture, commerce and industries and provide modern banking services to the people.

**Capital structure of Standard chartered Bank Nepal Ltd.**

Particulars	Rs.
Authorized Capital	1000,000,000
Issued Capital	500,000,000
Paid in Capital	374,640,400

**1.2 Statement of the Problem**

The major problem in almost all under developed countries and Nepal is the capital formation and proper utilization. In such countries joint venture banks have more responsibilities to avoid above problem and thereby contribute to the national economy. In the context of Nepalese joint venture banks, there is no optimum utilization of funds to have greater return. They are interested to invest in less risky and liquid sectors i.e. treasury bills, development bonds, National saving, share and debenture etc. and can not show the capability of invest in little high risk where is more profit. Due to the lack of portfolio management, joint venture banks have less consider about portfolio optimization that cause can not formulate appropriate investment policy. In Nepal, commercial banks invest their funds in limited areas to achieve highest amount of profit. They are found to be making investment only on short term basis against movable merchandise.

The number of joint venture banks, commercial banks is increasing in response to the economic liberalization policies of the government. Other institutions offering similar nature of services like finance companies, co-operative societies and development banks are growing in large number. The joint ventures banks are central tendency to urban areas, some are expanded in the rural areas of Nepal but do not seem to have activated their role effectively in deposit mobilization and loan distribution there. Unsecured loan and investment may cause the liquidation of those banks. If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank can not obtain profitable return. Nepal Rastra Bank has also played important role to make commercial banks to invest their funds in good sector. For this purpose, NRB has imposed many rules and regulations so those banks can have sufficient liquidity and security. Banks should follow as per direction of NRB, and also be make clear vision towards investment portfolio itself.

With prevailing economic condition of the country the investment in agriculture, manufacturing, industrial sectors has not grown satisfactory. Hence, the joint venture banks and commercial banks are also not succeeding perfectly to shift the deposit in profitable sectors. Competitions being the burning issues at present in the country, joint venture banks and other financial institution mushroomed in a short time span but investment opportunity is not comparatively extended. It has threatened the entire banking system and also warned the commercial banks to improve and manage their productivity.

Through the flow of credit to priority and productive sector were increasing the major challenges to be faced by commercial banks is to contribute in the uplifting of the priority and productive sector to the highest extent possible. JVBs and commercial banks are directly affected by the economic turmoil and are facing difficulties in furnishing their loans and advances towards the profitable sectors. Investment policy may differ in different commercial banks but there is no optimum utilization of shareholders fund to have greater return in any financial institution. Under such situation, the present study will try to analyze investment, portfolio management of JVBs, return on various types of

investment, portfolio risk and return and performance towards investment. Thus this study will deal with the following issues:

- ) What is the relationship between investment and loan and advance with total deposits and total net profit?
- ) Does the investment decision affect to the total earnings of the banks?
- ) How far JVBs have been able to mobilize and utilize domestic resources?
- ) Is JVBs effectively utilized portfolio concept in their investment directed towards objectives of maximize return?
- ) What is the trend of investment in different assets?

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

The main objective of the study is to analyze, examine and interpret the investment and loan & advances portfolio of joint venture banks. The specific objectives of this research are pointed as follows:

To highlight the objectives of selected joint venture banks.

The objective of this study is to evaluate the fund mobilization policy which has adopted by selected three joint venture banks NABIL, SCBNL and NIBL.

The main objectives of this study are given as follows;-

1. To study deposit mobilization of banks.
2. To find out liquidity, asset management efficiency and profitability position in relation to fund mobilization of commercial banks.
3. To examine the relationship of total deposits to investment, and loans and advances.
4. To suggest and recommend measures on the basis of analyzing data and findings.

### **1.4 Need, Scope & Significance of the Study**

At present, joint venture banks are going a wide popularity through the efficient management and professional service and playing eminent role in the economy. Regarding the economic structure of the country, the banks do not have sufficient investment opportunities. Rapidly, increasing financial institutions are creating threats to

the joint venture banks. The main objective of commercial banks is to earn more profit by proper mobilization of funds. They provide different banking facilities to the banking customers. Joint venture banks and commercial banks have pivotal role in collection of dispersed small saving and transforming them into meaningful capital investment. Success and prosperity of the banks relies heavily upon the successful investment of collected resources to the productive sector of economy. Hence, successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institution. Therefore, the study is to analyze the existing investment portfolio of joint venture bank of Nepal and point out the various weakness of defect inherent in it and provide package of suggestion for its improvement. The result of the research will be helpful for JVBs for especially for sampled banks to formulate strategies to face the increasing competitions. The study no doubt will also have multi dimensional importance for various areas, which are mentioned below in brief.

- ) Importance to policy formulators and also be useful for teachers, students of the subject, particularly those in commerce, chartered accountancy and institutional finance.
- ) Importance to Shareholders.
- ) Importance to management bodies of these banks for the evaluation of the performance of their banks and in comparison which other banks.
- ) Importance to government bodies and policymakers such as central banks.
- ) Interested outside parties such as investors, customers (Depositors, loan takers as well as others types of clients.), competitors, and personnel of the banks, stockbrokers, dealers and market makers.

### **1.5 Limitations of the Study**

This study is not a comprehensive study. This study is conducted for the partial fulfillment of degree of MBS. So there are many deficiencies may find in this study due to various limitation. Some of the limitations are as follows:

1. The study is covered only three banks i.e. NABIL, NIBL and SCBNL.

2. This study is based on secondary data, the calculation and conclusion of the study is fully depended on the accuracy of data available from various sources and concerns organization.
3. The analysis period of research covers only five years i.e. the fiscal year 2003/04 to 2007/08 AD.
4. There are many factors that affect investment decision and valuation of the firm. However, only on those factors, which are related with investment portfolio analysis will be considered in this study.
5. Due to the wide range of data deficiencies only simple techniques have been used in analysis and certain ratios related with investment are selected.
6. The limitations of this study are time constraints, limited budget, Lack of experience, up-to-date information.
7. It focuses on investment performance and doesn't cover other and in these study only selected financial and statistical tools aspects and techniques are used.

## **1.6 Organization of the Study**

This study has comprised five chapters they are as follows;

### **Chapter – I Introduction**

The first chapter (Introduction) deals the whole study. This chapter consist general background of institutes or introduction of selected banks, statement Of the problems, objectives of the study etc from the first chapter.

### **Chapter – II Review of Literature**

The second chapter is literature review. It serves much important function like continuity of study progress of the study. Without literature review anyone could not find result , so in this chapter review the related literature journal, previous study, magazine, newspaper etc.

### **Chapter – III Research Methodology**

This chapter describes the method design of research and sequential steps that have been followed in conducting this study and materials used at each steps. Like sources of data gathering procedures, population and sample size of the study.

### **Chapter – IV Data Presentation and Analysis**

This chapter is the body of the study, from this chapter main task of the study has been done. In this chapter all data are presented, analyzed and interpreted using requires tools like financial and statistical.

### **Chapter – V Summary, Conclusion and Recommendations**

This chapter is final chapter which conclude its objectives. It covers whole study with summarized and presentation of related findings. This chapter could be recommended to related person, Organization or reader.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

Every study is based on past knowledge; the past knowledge provides foundation to the present study. This part of the study tries to describe conceptual framework, concept of commercial and joint venture banks. Optional fund mobilizing decision has played a vital role in each and every organization. So this chapter is basically concerned with conceptual framework and review of literature relevant to the fund mobilizing policy of Commercial banks relevant for all so rounding that mobilize fund in view of return. This chapter helps to take adequate feed back to broaden the information base and inputs to study so it should not be ignored.

#### **2.1. Conceptual Framework**

The study is not clear seen without conceptual framework studies of related field. The commercial banks and financial institutions can play a vital role in the economic growth of a country as well as whole economy of the world. The banks are such types of financial institutions, which deal in money and substitute for money, or they deal with credit and credit instruments. Good management of credit or credit instruments is very important for the banks. Fluctuate flow of credit and weak decision harms the whole economy and the bank as well. It is not a joke for those financial institutions to collect fund and utilize it in good investment sector. The decision of good mobilization of fund may be the question of life and death for the bank.

According to **William J. Sharpe and Alexander J. Gordon 1996** has defined the term "Investment" as the sacrifice of money today for the prospective money tomorrow. He writes "Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is uncertain. In some cases the element of time predominates (e.g. government bond). In

other cases, risk is the dominant attribute (e.g. call option on common stock. In yet both time and risk are important."

**Charles P. Jones** defined that, "Investment as the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of current income and present value of all future income."

The secret of successful banking is to distribute resources between the various forms of assets. In such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly releasable) to meet every claim and at the same time enough income for the bank to pay its way and earn profits for its shareholders.

"Investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder's fund maximization. An investment will all to the shareholder's wealth if it yields benefit in excess of the minimum benefits as per the opportunity cost of capital" (Pandey, 1999).

"Portfolio behavior of commercial banks in Nepal" said, "The commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks is based on the profit maximizing of the institution as well as the economic enhancement of the country" (Shrestha, 2006).

"A sound investment policy of a bank is such that its funds are distributed on different types of asset with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial

trouble its problem usually spring from significant amounts of loan that have become uncollectable due to the lack of mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it sound and prudent in order to protect public funds” (Baidhya, 1997).

“A study of joint venture banks in Nepal :co-existing and crowing out” pointed out that it is very much beneficial for Nepalese to let joint venture banks to enhance the development of local commercial banks. But the government should charge more cost to joint venture banks than the local commercial banks. He suggested to government to equally treat the joint venture banks and local banks .Both types of banks will co-exist complementing each other and contributing the nation’s accelerating development (Sharma, 1988).

“Role of foreign banks in Nepal has concluded that joint venture banks are playing an increasing, dynamic and vital role in the development of the country. This will undoubtedly increase with time (Chopra, 1990).

“The role of the commercial banks in Nepalese Context concluded that the five commercial banks were improving their services, due to the pressure of competition for the public benefits” (Serra, 1991).

Commercial Bank Act, 2031 B.S. of Nepal has defined that “A commercial bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative agriculture, industries or for such specific purpose”.

The commercial banks act. 2031 has laid emphasis on the functions of commercial bank while defining it. This act has instructive and providing for all commercial banks, which main provides the short-term and long term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and

discount bills for exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers provided that they are paid for their services.

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

Commercial banks must mobilize its deposits and other funds to secured, profitable, reliable and marketable sector, so that it can earn a reasonable profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

### **2.1.1 Commercial Banks and its Importance Terms**

Fund mobilization means, to collect form different sources and use it effectively. Nepal Rastra Bank's instructions and rules is the basic term emphasizes the study of this chapter. In this section of the study, efforts have been made to clarify the meaning of some important terms frequently used in this study. They are presented below.

#### **Loan and Advances**

For income generates all commercial banks and other financial institutions have basic need operating sources of loan, advances and overdraft. Bank deposits can be crossed beyond a desired level but the level of loans advances and overdraft will never cross it. The facilities of grant loan, advances and over draft are the main services, which customers of bank can enjoy.

Funds borrowed from banks are much cheaper than those borrowed from unorganized money lenders. The demand for loans has excessively increased due to cheaper interest rate. Further, an increase in economic and business activities always increase the demands for funds. Due to limited resources and increasing for loans, there are some fears that commercial collateral while granting loans causing unnecessary botheration to the general customers. Such loans from these institutions of resources in economically less productive fields. These the undesirable effects of too low interest rate. In addition to this, some portion of loans, advances and overdraft includes that amount which is given to staff of the bank as house loan, vehicle loan, personal loan and other. In mobilization of commercial bank fund, loan advances and overdraft have occupied a large portion.

### **Investment on Government Securities, Shares and Debentures**

Commercial banks are established to earn more interest and dividend from the investment but from government securities shares and debentures banks cannot earn more interest and dividend. This is not a major source of income. It is treated as a secondary source of banking business. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons:

- ) These are the highly marketable securities. If a bank needs liquidity immediately, it can convert into cash.
- ) Bank can fulfill its burden of expected withdrawals by depositors or large loan demands of its customers.
- ) It may be forced to invest because the demands for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained and maintained primarily with a view to nature of bank's liabilities. That is since depositors may demand funds is 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.

### **Investment on Other Company's Shares and Debentures**

Most of commercial banks invest their excess funds to the shares 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 Nepal Rastra Bank's directives. Now a day the commercial banks have purchased shares and debenture of regional development bank. NIDC's and other development banks.

### **Other Use of Funds**

Commercial bank must maintain the bank balance with Nepal Rastra Bank as prescribed by the bank in Nepal. Similarly, they have to maintain the cash balance in local currency in the vault of the bank. Again some part of the fund has to be used for the bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computer, stationery etc.

### **Deposits**

Commercial Bank Act 2031(1974) defines “deposit” as the amounts deposited in a current, saving or fixed accounts of a bank or financial institution. A bank takes various types of deposits from individuals, business organization, general people and other different types of institutions. Deposit is the most important source of the liquidity for a commercial bank. Deposits are the life blood of commercial banks. It is also the main source of fund that a bank usually uses for the generation of profits. Therefore, the efficiency of the depends on its ability to attract deposits. Deposit being the borrowed amount from the depositors or from general public and institutions, it constitutes the liability of a bank.

Though they constitute the great bulk of banks liabilities the success of bank greatly depends upon the extent to which it may attract more and more deposits.

### **Off – Balance Sheet Activities**

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some examples of these items are letter of credit, letter of guarantee,

bills of collection etc. These activities are very important, as they are the good source of profit to bank though they have risk. Now days, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities.

### **2.1.2 Features of Sound Lending or Fund Mobilizing Policy**

The gain earning of the any banks basically depends upon its, lending policy, lending procedure and investments its fund in different securities and different sector of market. The greater the credit created by the bank, the higher win the profitability. A sound lending as a sound fund mobilizing policy is not only prerequisite for bank profitability but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Some principles for sound lending as fund mobilizing policy which most of the banks must consider can be explained as under.

#### **Safety and Security**

The bank should never invest its funds in those securities, which are subject to too much depreciation and fluctuation because a little difference may cause a great last. It must not invest fund in speculative businessman who may be bankrupt at once and who may earn million in a minute also. The bank should accept that types of securities, which are commercial, durable, marketable and high market prices. In this case ' MAST ' should be applied for the investment, where

M = Marketability

A = Ascertainiblity

S = Stability

T = Transferability

#### **Profitability**

Commercial bank can maximize its value of wealth only through minimization of return on their investment and lending. So, they must invest their fund where they gain maximum profit. The profit of the commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different Securities.

### **Liquidity**

Liquidity refers to that state of position of a bank that pronounces its capacity to meet all its capacity to meet all its obligation. In other words, it refers to the capacity of bank to pay cash against deposits. People deposit money at the bank in different accounts with the confidence that bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities as at the time of lending. So that it can meet current or short-term obligation when they become due for payment.

### **Purpose of Loan**

Customer has needed a loan for different purpose. Why is a customer in need of loan? This is a key question. If customer misuses the loan granted by the bank, they can never repay and bank will possess heavy bad debts. Detailed information about the scheme of project or activities should be examined before lending.

### **Diversification**

A bank should minimize its risk in every sector of investment. To minimize the risk, a bank must diversify its investment on different sector. Diversification of loan helps to sustain loss according to the law of average because if securities of a company deprived. There may be appreciation in the securities of other companies. In this way the loss can be recovered.

### **Tangibility**

Though it may be considered that tangible property does not yield an income a part form direct satisfaction of possession of property, many times intangible securities have lost their value to price level inflation. Commercial banks should prefer tangible security to tangible one.

## **Legality**

Illegal securities will bring out many problems for the investors. Commercial banks must follow the rules and regulation as well as different direction issued by Nepal Rastra Bank, ministry of finance and other while mobilizing its funds.

### **2.1.3 Fund Mobilizing Procedure of Joint Venture Banks**

Every bank of world has applied their own fund mobilizing procedure. These procedures are normally so visible in the bank. The bank has adopted the procedure of fund mobilization which is easy and effective in practical. Generally all banks have some fund mobilizing procedure of the funds mobilization have presented below serially.

- A. Sources of Fund
- B. Mobilization of Funds

#### **A. Sources of Fund**

Bank collects the fund. There are so many sources of fund in the economy activities. In these sources, issuing share and borrowing loan from different sector. The sources of funds can be classified in two ways.

1. Owned funds (equity capital of bank)
2. Borrowed fund of bank

#### **1. Owned Funds (Equity Capital of Bank)**

Following sources are the owned fund sources (equity capital of bank)

##### **a. Ordinary Shares**

Ordinary shares are the bank's a strong and reliable source of funds. Banks promoters issue ordinary shares to the public in fixed number. Banks collects the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholder after purchasing the issued share. So banks service a large amount of funds from promoters and ordinary share holders.

##### **b. Preferences Share**

Preference shares means a type of shares which dividend and after liquidation money before ordinary share. But in Nepal, bank cannot issue preference share. But some Situations, it can issue preference share by taking permission from Nepal Rastra bank. If NRB gives permission bank can collect the fund by issuing preference shares.

### **c. Bonus Share**

Bonus share means company issues the extra share to the share holder from the saving from profit and reserve fund by capitalizing these funds. Banks issue shares to shareholders instead of banks amount. From the bonus share, bank collects some share of funds.

### **d. Retained Earning**

Bank earns profit by investing the funds in different sector through the principle of profit earning. Banks invests its fund in productive or profitable industries and business. Bank earns some amount from these investments. These earnings called bank's funds.

### **e. Undistributed Dividend**

Bank does not distribute all profit to the shareholders. Banks invest some amount from profit by not distributing to shareholders. By this, the invested profit makes sources of funds to the banks.

## **2. Borrowed Fund of Bank**

Banks collect the funds from another sources except owned funds. The another sources are borrowing from different sector. These types of funds collect borrow and debt capital. Following title can illustrate in this funds.

### **a. Selling of Debenture**

Debenture means a 'Rinpatra' which is issued by company by keeping or not keeping assets securities for collection of funds. If bank need a fund, it can collect capital by issuing debenture. The money also collects bank capital, which is collected by issuing debenture.

## **b. Deposits**

The bank performs two-fold functions, that is, the receipts of the deposits and granting the loans. The bank borrows money by accepting different types of deposits. The bank attracts the deposits from the public. The bank not only undertakes to take care of the deposits but also agrees to honor the demands of the deposits for withdraw of money from the deposits. Deposits accepted by the bank are of different types-currents, saving and fixed deposits.

### **Current Deposit**

The deposit in which an amount is immediately paid at the time of any account holder's demand is called demand deposit or current deposit. The bank does not provide interest in this deposit.

### **Saving Deposit**

The bank can collect capital through the saving deposit. According to Commercial Bank Act 2031(1974), Saving Account means "an account of amounts deposited in a bank for saving purposes." Generally in saving accounts there are certain restrictions like maximum amount that can be deposited and on withdrawal of the account also. In this type of deposit, customers get some interest on the deposit.

### **Fixed Deposits**

According to the Commercial Bank Act 2031(1974), "Fixed Account" means an account of amounts deposited in a bank for certain period of time. The customers opening account deposit their money in this account, for a fixed period. It is also called time deposit because this amount is deposited for a certain period of time. The rate of interest is higher than the saving or other accounts as the use this amount for making investments and granting loan and advances.

## **c. Loan from the Central Bank**

NRB is the central bank in Nepal. It is a bank of banks. All banks should operate their banking activities under this so central bank provide loan to the banks if needed. The loan provided by central bank capital.

#### **d. Loan from the Financial Institutions**

Banks can receive loans from financial institutions in the form borrowing financial institutions also provide loan to banks. These loan also a bank capital.

#### **e. Loan from Commercial Banks**

Banks receives money from other bank in the form of borrowing when need. Bank solves the money problem of another bank by providing loan. That is types of bank capital.

#### **B. Mobilization of Funds**

Banks utilize its funds in suitable area and sector. Bank cannot get its aim of profit earning without mobilizing its funds in right sectors and different activities. Many types of activities and other thing can origin for the purpose of receiving invest from the bank. But bank should separate the useful and profitable sector for mobilization of its funds.

Banker being only a financial intermediary, we will not be able to make any profit unless he mobilize funds suitably. It is from out of the interest he earns on loan and advances, he has to pay interest on deposits meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder. Unless the banker makes a judicious use of he resources at his command, it is not possible for him to maximize his income. It must also be stated at the outset that the banker is not completely free in the matter of deployment of funds. As commercial organization they are expected to make profit. If there is no profit, there will be adverse criticism against public sector banking, both in and outside the parliament when these banks are asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. There fore, these banks will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in

accordance with profitable banking activities. Mainly a bank has mobilized its fund in following activities.

### **(I) Liquid Funds**

A bank has kept a volume of amount in liquid funds. The funds have so many responsibilities in banking activities liquid funds has covered following transactions.

- ) Cash in hand
- ) Balance with NRB
- ) Balance with domestic bank
- ) Call money

### **(II) Investment**

A bank invests its fund in different banking activities and different fields. Many types of fields are shown in market for investment. But bank invests its funds in profitable and safely activities. Bank invests in fund in following titles.

- ) Government securities
- ) Share and debenture
- ) NRB bond
- ) Joint-venture

### **(III) Loan and Advances**

A bank mobilizes its funds by providing different types of loan and advances to customers, by charging fixed interest. Different types of loan and advances are:

- ) To government enterprises.
- ) To private enterprises

Bank manages the different types of loan i.e. providing loan, business loan, and traditional loan to priority area.

### **(IV) Fixed Assets**

Land and buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicles, computer and other concerned instrument, which are related to banking activities. Bank cannot take direct gain from these assets, but banks should buy it. A bank has need of fund to purpose fixed assets for the new branches of the bank.

#### **(V) Administrative and Miscellaneous Expenses**

Bank should manage funds for administrative and other miscellaneous expenses. In administrative expenses

- ) Salary of employee
- ) Allowances
- ) Pension
- ) Provided fund
- ) Advertisement
- ) Stationery
- ) Rent
- ) Income tax
- ) Donation
- ) Insurance
- ) Tour expenses
- ) Commission

In miscellaneous expenses

- ) To distribute the divided to shareholders.
- ) To bear the loss on sale and purchase of banking assets.
- ) Maintenance expenses
- ) To pay the interest on borrowed amount
- ) Reserve Fund

In this way, bank mobilizes its fund in different activities to achieve its goal of earning profit. In really, bank's main aim is to earn more and more profit by mobilizing its funds with fully consuming in all banking activities.

## **2.2 Review of Thesis**

There are a lot of research have been performed on Investment policy of Commercial banks. The findings of some of the studies are presented below.

**Thapa (2001)** conducted a study on "*A comparative study on investment policy of Nepal Bangladesh Bank Ltd and other joint venture banks.*"

The major objectives of the study are as follows:

- ) To evaluate the liquidity, asset management efficiency, profitability and risk position of NB Bank in comparison to NABIL and NGBL.
- ) To analyze the relationship between loan and advance and total investment with other financial variables of sample Banks.
- ) To examine the fund mobilization and investment policy of NB bank through off-balance sheet and on-balance sheet activities in comparison to the other two Banks.
- ) To study the various risk in investment and to analyze the deposit utilization trend and its projection for next five years of the sample Banks.
- ) To provide the suggestion for improving the investment policy of NB Bank

On the basis of the findings of the analysis are:

- ) Liquidity position of NB bank is comparatively better than that of NABIL and NGBL. It has the highest cash and bank balance to total deposit, cash and bank balance to current asset ratio.
- ) It has good deposit collection, it has made enough loan and advance but it has made the negligible amount of investment in government securities.
- ) The NB bank is not in better position regarding its on-balance as well as off-balance activities in compare to NABIL and NGBL.

- J It does not deem to follow any definite policy regarding the management of its assets. She further found that the profitability position of NB bank is comparatively worse than NABIL and NGBL. The Bank must maintain its high profit margin for the well being in future.
- J NB bank has maintained high a growth rate in comparison to other banks through it is not successful to make enough investment. And can say that the bank is successful in increasing its source of funds and its mobilization.
- J NB bank has maintained high growth rates in comparison to other banks the bank has maintained high growth rates in comparison to other banks through it is not successful to make enough investment.
- J The position of NB bank in regard to utilization of the fund to earn profit is not better in compare to NABIL and NGBL.
- J NB bank is not in the better position regarding the proportion of fee-base activities to loan and advances in compare with other two banks during the study period. NB bank in terms of recovery of loan is worse in comparison to NABIL and NGBL.

Ojha (1997) conducted a study on "*A Study on Priority Sector Investment in Commercial bank (with special reference to Rastriya Banijya Bank)*".

Main objective of examining the priority sectors for investment of Rastriya Banijya Bank, utilization of the funds during her five years' study period (i.e. from 1992/93 to 1996/97). Lastly she found that the bank was unable to meet the requirement of 12% lending in the priority sectors as set under NRB directives. She has further found low interest rate in the priority sector but increasing trend of overdue and its misutilization. She has also recommended for improving the proper supervision, evaluating the borrowers paying capacity and trying to reduce the overdue through integrated program of priority sector loan.

Kamala has tried to examine the investment sectors of Rastriya Banijya Bank, which cannot explain the investment policy of the firm properly. Her study cannot also analyze the investment priority of other banks. Her study period is up to FY 1996/97; it cannot examine the investment sectors after that fiscal year.

**Laudari (2001)** conducted a study on *"A Study on Investment Policy of Nepal Indosuez Bank Ltd in Comparison to Nepal SBI Bank Ltd."*

The basic objectives of the study were as follows:

- )] To examine the liquidity, assets management and profitability position and investment policy of Nepal SBI Bank Ltd. in comparison to NIBL.
- )] To analyze relationship between deposits and loan and advances, deposits and investment, net profit and outside assets of NIBL.in comparison to Nepal SBI Bank Ltd.
- )] To study the growth ratios of loan & advances and investment to total deposit and net profit of Nepal SBI Bank in comparison to NIBL.

The research findings of the study are given below:

- )] Current ratios for both banks are satisfactory.
- )] Nepal SBI Bank Ltd. has increased investment in government securities where as NIBL has decreased.
- )] The analysis of growth ratios shows that growth ratios of total deposits, loans and advances, total investment and net profit of NIBL are less than that of Nepal SBI Bank Ltd.

**Kaini (1997)** conducted a study on *"A Comparative Study of Financial Performance of Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd."* has compare two joint venture commercial banks in terms of different issues. The major objectives of the study are:

- )] To analyze the banks deposit mobilization and has compare two joint venture commercial banks in terms of different issues.
- )] To analyze the banks deposit mobilization and investment.
- )] To examine the financial strengths and weakness and evaluate financial policies of the sample banks.
- )] To suggest necessary reform for their effective and efficient performance.

Major findings of the study are as follows:

- ) Average current ratio and cash and bank balance to deposit ratio of NABIL is higher than NGBL. But the current ratios of both banks are below the normal standard or satisfactory level.
- ) Activity ratios of NABIL are always higher than NGBL.
- ) Among the various profitability ratios like return on total assets ratio, net profit to total deposit ratio and return on net worth ratio are higher in NGBL than NABIL, while return on capital employed and interest earned to total assets ratio are better in NABIL than NGBL.
- ) Both banks have been able to maintain profitability and both banks have managed to maintain positive return during the study period.
- ) NGBL has more investment of owners' equity in the fixed assets. It has also higher capital adequacy than NABIL.
- ) Both joint venture banks are able to maintain satisfactory capital adequacy. Total debt to equity ratio of both banks is fluctuating in nature and both banks are highly leveraged.
- ) NABIL is a little better in terms of marginal efficiency ratio than NGBL. Both banks have low and unsatisfactory interest coverage ratio. Comparison in average, interest coverage ratio, NABIL has greater average interest coverage ratio than NGBL.
- ) EPS of NGBL is better than NABIL but DPS of NABIL is higher than NGBL. However, both banks have paid dividend in each year.
- ) Income from interest is higher in NABIL than NGBL. Though, income from commission and discount is higher in NGBL than NABIL. NABIL is paying higher percentage of operating expenses on interest and commission, staff expenses and bonus whereas NGBL on the general expenses.
- ) Average percentage payment of bonus paid by NABIL is slightly higher than NGBL as per the total operating expenses comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation that of NGBL and NIBL.

- )] In the case of profitability ratio he has concluded that the profitability position of NABIL is comparatively not better than that of other joint venture banks.
- )] NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NGBL and NIBL.

**Shakya (2009)** made a study on “*Investment policy of Nepal Investment Bank Ltd. and NABIL Bank Ltd.*”

The main objectives of the study are as follows:

- )] To determine the growth rate of bank in terms of deposits, loans and advances, investment and profitability of the bank.
- )] To determine the proportion of investment in risky and risk free assets and to evaluate the off balance sheet operating of the bank.
- )] To evaluate the liquidity, assets management, profitability and risk position of NIBL and NABIL.
- )] To analyze the investment policy of NABIL & NIBL.

Major findings of the study are as follows:

Findings from Liquidity Ratio:

- )] The mean ratio of current ratio of NIBL and NABIL is almost equal which shows the consistency in comparison.
- )] The mean ratio of cash and bank balance to current assets of NIBL is higher than that of NABIL which shows NIBL’s ratio are less consistent than that of NABIL.
- )] The mean ratio of cash and bank balance to total deposit ratio of NIBL is higher than that of NABIL. NIBL's ratios are less consistency in comparison to NABIL.
- )] The mean ratio of investment on government securities to current assets of NABIL is higher than NIBL which shows that NABIL has good investment in Government securities than NIBL.
- )] The mean ratio of loan and advances to current assets ratio of NIBL is higher than that of NABIL which shows that the NIBL's ratios are more variable than that of NABIL

#### Findings from Assets Management Ratio

- ) The mean ratio of loan and advances to total deposit of NIBL is higher than that of NABIL. Likewise, NIBL's ratios are more variable than NABIL.
- ) The mean ratio of total investment to total deposit of NIBL is lower than that of NABIL and the ratios of NIBL are more variable than NABIL.
- ) The mean ratio of loan and advances to total working fund of NIBL is higher than that of NABIL and NIBL's ratios are more variable in comparison than that of NABIL.
- ) The mean ratio of investment on government securities to total working fund of NABIL is higher than of NIBL. NABIL's ratios are less variable in comparison to NIBL.
- ) The mean ratio of investment on share and debenture to total working fund of NABIL is higher than that of NIBL. NIBL has very nominal investment on Shares & debentures of other companies. Therefore NABIL's ratios are less Uniform in comparison to NIBL.

#### Finding from the Profitability Ratios:

The profitability ratio of NABIL and NIBL reveals that:

- ) The mean ratio of return on loan and advances of NIBL is lower than that of NABIL. On the other hand, NIBL's variability between ratios is lower than that of NABIL.
- ) The mean ratio of return on equity (ROE) of NABIL has been found higher than that of NIBL and NABIL's ratios are less consistent than that of NIBL.
- ) The mean ratio of total interest earned to total outside asset of NIBL is slightly lower than that of NABIL. However, NABIL's ratios are more uniformity than that of NIBL.

#### Finding from the Risk Ratios:

- ) The risk ratios of NABIL and NIBL reveal that the average liquidity risk ratio of NIBL is higher than that of NABIL and NIBL's ratios are less variability in comparison to NABIL.
- ) The mean ratio of credit risk ratio of NIBL is higher than that of NABIL and NIBL's ratios are more homogenous than that of NABIL.

#### Finding from the Growth Ratios

The growth ratios of NABIL and NIBL reveal that:

- ) Growth ratio of total deposit of NABIL is lower than NIBL.
- ) Growth ratio of loan and advances of NABIL is lower than NIBL.
- ) Growth ratio of total investment of NABIL is lower than NIBL.
- ) Growth ratio of total profit of NABIL is lower than NIBL.

#### Finding from the Co-efficient of Correlation Analysis

- ) NABIL and NIBL has been found that there is significant relationship between deposit and loan and advances. The increase and decrease of total deposit of the bank strong affects the volume of loan and advances.
- ) Co-efficient of correlation between deposit and total investment of both bank has positive relationship. The value of 'r' of NIBL is slightly higher than that of NABIL. In case of both banks it has been found that there is no significant relationship between deposits and total investment during the study period.

#### Finding from the Trend Analysis

- ) The trend values of total deposit of NABIL are found to be in decreasing trend and NIBL is found to be in increasing trend.

**Bhurtel (2009)** conducted a study on “*Investment Analysis of Commercial Banks in Nepal*”(NIBL, HBL, NSBIBL, EBL,BOK).

The main objectives of the study are as follows.

- ) To study and analyse percentage of investment made by selected commercial banks
- ) To analyze investment trend and their projection for next four years of selected commercial banks.
- ) To identify investment sector of selected commercial banks.
- ) To study the relationship between investment and Deposit of the bank.

Major findings of the study are as follows.

Findings from ratio of sample banks to total commercial banks.

- ) Mean ratio of HBL Investment to total commercial banks investment is extremely higher than that of other banks to total commercial banks. The portion of HBL investment is increasing every year in the total Investment of Commercial banks. The ratio of NSBIBL is less than other banks.

Findings from the Investment pattern of Sample banks:

- ) NSBIBL had investment most of there fund in government securities than other bank. Likewise EBL, BOKL, HBL and NIBL. HBL, EBL and NIBL had started to invest in other sector from FY 2062.
- ) All the banks had invested fewer funds to share and capital of other company. The commercial banks mostly invest on government securities, NRB bond and debentures of other company.

Findings from Assets Management Ratios:

- ) The mean ratio of Investment of total deposit of NIBL is higher than other banks. Likewise HBL, BOKL, EBL and NSBIBL. The ratio of NSBIBL is less than other banks.
- ) The mean ratio of investment plus loan and advances to deposit ratio of NSBIBL is higher than other banks, HBL has less than other banks. It shows that the bank uses most of its fund from deposit on Investment and loan and advances.
- ) The mean ratio of total of investment on government securities to total assets ratio of NSBIBL which is higher than other banks and NIBL is less ratio than Other banks.
- ) The mean ratio of investment on share and debenture to total asset ratio of NIBL has higher than other banks. NIBL has use its more fund on share and debenture of other companies than other banks. NSBIBL is less ratio of investment on share and debenture.

### **2.3 Research Gap**

The purpose of this study is to draw some ideas concerning to the maintain good investment policy and to see what new contribution can be made and to receive some ideas, knowledge and suggestion in relation to maintain good investment policies of sample companies. The previous students cannot be ignored because they provide the foundation to the present study. In other words there has to be continuity research. This continuity research is ensured by linking the present study with the past research studies.

It is clear that the reference of new research cannot be found on the exact topic that is "Investment Policy of Joint Venture banks in Nepal". Therefore to complete this research many book, journals, articles and various published and unpublished dissertation and field opinion are followed as guideline to make the research easier and smooth though the reference materials. The researcher can find out the gaping from the past research that has to be fulfilled by the present research work. In this regard, here the researcher is going to analyze the different policy in this topic. It is the new topic for the research work. It is expected to the uncovered areas of this research work will be studied. The gaping between old and new research work will be focused and filled up based on the given objectives and limitation in this research.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology describes the methods and process applied in the entire subject of the related study. It is a way to systematically solve the research problem. It is really a method of critical thinking by defining and redefining problems, formulating hypothesis or suggested solution, collecting, organizing and evaluating data, making decision and making conclusion to determine whether they fit the formulated hypothesis. The main objectives of the study are to analyze, examine, highlight and interpret the investment situation of the banks.

"Research is the process of a systematic and in-depth study or search of any particular topic, subject or area and investigation backed by the collection, computation, presentation and interpretation of relevant details or data. It is a careful search or inquiry in to any subject matter, which is an endeavor to discover or find out valuable facts, which will be useful for further application or utilization."

The topic of the problem has been selected, as "Investment policy of joint venture banks" with basic objective of this study is to evaluate the investment policy of NABIL, NIBL and SCBNL" With the objective to analyze the fund collection and mobilization of these three commercial banks. On the introduction part banking and its impacts on the country's economy, its importance and the evolution of commercial banking in Nepal has been described in the introduction and statement of the problem and objectives of the study is included in the chapter one. Review of literature has been carried out from relevant books, articles, and thesis in the chapter two. The data has been collected from various sources like NRB reports, the concerned banks Annual Report, articles and publications dealing with the subject matter of the study etc and with structured interview with the bank official. The data has been then processed and presented as Data Analysis

and Presentation along with findings in chapter four. The summary and recommendation are presented in the chapter five.

### **3.2 Research Design**

"Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure." It is a framework or plan for a study that guides the collection and analysis of the data.

For this study analytical and descriptive research designs have been followed.

#### **3.2.1. Sources of Data**

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, assets and profit are directly obtained from the balance sheet and profit and loss A/C of concerned bank's annual reports, NRB reports – annual reports, quarterly bulletins, economic reports, various articles and publication dealing in the subject matter of the study, websites etc.

Annual reports are the main sources of the data for this study. However in some arrears annual reports, bulletins and publications from NRB are used for the analysis

Supplementary data and information are collected from security exchange board, Nepal stock exchange Ltd, ministry of finance Budget speech of different fiscal years, economic survey and national planning commission etc.

According to the need and objectives, all the secondary data are complied, processes and tabulated in time series. In order to judges the reliability of data provided by the banks and other sources, they were complied with the annual reports of auditors. Formal and informal talks to the concerned head of the department of the bank were also helpful to obtain the additional information of the related problem.

Similarly, various data and information are collected from the periodicals, economic journals, managerial magazines and other published and unpublished reports and documents from various sources.

### **3.2.2 Population and Sample**

There are twenty six commercial banks registered in Nepal Rastra Bank and are on operation. Sampling is done to draw conclusion from the whole population. The population refers to the industries of same nature, services and product in general. So among the various commercial banks under the banking industry NABIL Bank, NIBL, Standard Chartered Bank Ltd. are selected for the study. However the performance of finance companies, cooperatives, development banks etc are not considered in the calculation of the population of the study. A brief profile of the selected banks under the study is on Appendix A.

### **3.2.3 Data Gathering Procedure**

At first the researcher collected the annual reports by field visiting the respective banks. NRB Publications like Annual Reports, Economic Reports, Quarterly Economic Bulletin, Banking and Financial Statistics etc has been collected from the bank. Primary data has been collected through structured interview taken with the credit department officials of the concerned banks. On some aspects data has also been collected from the Nepal Stock Exchange and Nepal Banks' website.

## **3.3 Analysis Of Data**

Various tools are used to analyze the data presented in the study which are as follows:

### **3.3.1 Financial Tools**

The financial tools are used to find the financial strength and weakness of a firm. In this study following financial tools are calculated:

#### **Ratio Analysis**

The relationship between two accounting figures, expressed mathematically, is known as financial ratio (or ratio). In financial analysis, a ratio is used an index for evaluating the

financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of firm. An accounting figure conveys meaning when it is related to some other relevant information. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance."

There are various ratios in this study only the ratios relevant to the study are calculated and analyzed.

1. Liquidity Ratio
2. Assets Management Ratio
3. Profitability Ratio
4. Growth Ratio

### **3.3.2 Liquidity Ratio**

Liquidity ratios are used to measure the ability of banks to meet its short-terms liabilities that are likely to mature in the short period. From them, such insights can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities it is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

The following ratios are evaluated under liquidity ratio:

#### **(i.) Current Ratio**

This ratio shows the bank short-term solvency. It shows the relationship between current assets and current liabilities.

Current assets includes cash and bank balance, money at call or short notice, loans and advances, investment on government securities and others interest receivables, overdrafts, bills purchased and discounted and miscellaneous current assets. Similarly, current liabilities include deposits and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and other miscellaneous current liabilities.



Current ratio is calculated by dividing current assets by current liabilities this can be presented as:

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business.

**(ii) Cash and Bank Balance to Total Deposit Ratio**

Cash and bank balance are the most liquid current assets. It includes cash in hand and foreign cash in hand; cheques and other cash items, balance with domestic banks and balance held in foreign banks. Total deposit includes current, saving and fixed Deposit, money at call or short notice & other deposits.

This ratio shows the capability of bank, which may be immediately payable to the depositors. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor.

This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as,

$$= \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

**(iii) Cash and Bank Balance to Current Asset Ratio**

Cash and bank balance to current assets ratio reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are highly liquid assets than other in current assets portion so this ratio visualizes higher liquidity position than current ratio. This ratio can be calculated by using the following formula:

$$= \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

**(iv) Investment on Government Securities to Current Asset Ratio**

Investment on government securities includes treasury bills and development bond.

This ratio is calculated by dividing investment on govt. securities by current assets.

This can be presented as,

$$= \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

**(v) Loan and Advances to Current Assets Ratio**

Loan and advances are the current assets of commercial bank, which includes loan and advances, cash, credit, overdraft, loan and foreign bill purchase and discount.

Loan and Advances to current assets ratio is calculated by dividing loan and advances by current assets. This can be presented as follows,

$$= \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

**3.3.3 Asset Structure Ratio**

Asset structure ratio measures how efficiently the bank manages the resources as its command. This ratio measures the effective utilization of assets by the bank. The following ratios are calculated and analyzed under the asset structure ratio.

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

This ratio is calculated to find out, how successfully the banks are utilizing their total deposits on loans and advances for profit generating purpose. Greater ratio implies the better utilization of total deposits; this can be obtained by dividing loan and advances by total deposits, which can be stated as,

$$= \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

**(ii) Loan and Advances to Working Fund Ratio**

Loan and advances is the major component in the total working fund which indicates the ability of bank to channels its deposits in the form of loan and advances to earn high return.

This ratio is computed by dividing loan and advances by total working fund. This is stated as,

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

**(iii) Total Investment to Total Deposit Ratio**

Investment is one of the major credits created to earn income. This implies the utilization of firm's deposit on investment in government securities and share debentures of other companies and bank. This ratio can be obtained by dividing total investment by total deposit. This can be mentioned as:

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

The numerator consists of investment on government securities, investment on debenture and bonds, share in other companies and other investment.

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

This ratio shows that bank in investment on government securities in comparison to the total working fund. Investment on government securities includes treasury bills and development bond. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

$$= \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

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

This ratio shows the banks investment in shares and debenture of subsidiary and other companies. This ratio can be derived by dividing investment on shares and debentures by total working fund, which can be mentioned as,

$$= \frac{\text{Investment on Shares and Debentures}}{\text{Total working fund}}$$

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

### 3.3.4 Profitability Ratio

Profitability ratios are calculated to measure the efficiency of operation of a firm in terms of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitable ratio, better the financial performance of bank and vice versa. Profitability position can be evaluated through following different ways:

#### (i) Return on Total Assets (ROA)

This ratio measures the overall profitability of total assets. A firm has to earn satisfactory return on assets or total working fund for its survival. This ratio is calculated by dividing net profit (loss) by total assets. This can be mentioned as,

$$= \frac{\text{Net Profit (loss)}}{\text{Total Assets}}$$

The numerator indicates the portion of income left to the internal equities after all costs charges, expenses have been deducted.

#### (ii) Return on Loan and Advance Ratio

Return on loan and advance ratio indicates the how efficiently the bank utilized the resources in the form of loan and advances to generate good return. It measures the earning capacity of commercial banks. This ratio is calculated dividing net profit by loan and advances. This can be formed as,

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

#### (iii) Total Interest Earned to Total Outside Asset Ratio

The outside assets have played a significant role in commercial banks as a main asset

which includes loan and advances, investment on government securities, investment on share and debentures and all other types in investment. A high ratio indicates high earning on total outside assets and vice versa.

This ratio is calculated by dividing total interest earned by total outside assets.

This can be formed as follows,

$$= \frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

### **3.3.5 Growth Ratios**

Growth ratios are directly related to the fund mobilization & investment management of commercial bank. It represents how well the commercial bank is maintaining its economic & financial position. To examine and analyze the expansion and growth of the bank following growth ratios are calculated in this study.

- a. Growth ratio of total deposits.
- b. Growth ratio of loan and advance.
- c. Growth ratio of total investment.
- d. Growth ratio of net profit.

### **3.3.6 Statistical Tools**

To achieve the objective of this study, Some important statistical tools like as mean standard deviation, correlation coefficient and coefficient of variance, trend analysis are used in this study.

#### **i. Standard Deviation**

The measurement of the scatter ness of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series, a large standard deviation means just the opposites.

In this study, standard deviation of different ratio is calculated.

## **ii. Coefficient of Variation**

Standard deviation is an absolute measure of dispersion. The relative measure of dispersion based on standard deviation is known as coefficient of variation. The coefficient of variation is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the means expressed in percent. The small value of C.V means high degree of consistency in the observed distribution and vice versa.

$$= \frac{\text{Standard Deviation}}{\text{Mean}}$$

## **(iii) Correlation Coefficient**

Correlation is an analysis of the covariance between two or more variables and it deals to determine the degree of relationship between the variables. Correlation just says the degree of relationship between two or more variables. If between two variables, increase or decrease in one cause increase or decrease in another, then such variables are correlated variables. Thus, it measures the mathematical relationship between two variables.

This study tries to find out relationship between the following variables.

- a. Co-efficient of correlation between deposit and loan and advances.
- b. Co- efficient of correlation between total deposit and total investment.

This tools analyze the relationship between these variables and help the bank to make appropriate policy regarding deposit collection, fund utilization and maximization profit.

## **(iv) Trend Analysis**

These analysis analyze the trend of deposit, loan and advances, investment and net profit of NABIL, NIBL and SCBNL and make the forecast for the next 5 years.

- i. Trend analysis of total deposit
- ii. Trend analysis of loan and advance
- iii. Trend analysis of total investment
- iv. Trend analysis of net profit

The trends of related variable can be calculated as,  $Y = a+bx$

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

Under this chapter, financial analysis statistical analysis and major findings of the study are presented. Comparative Balance Sheet and Comparative P/L Account of NABIL, NIBL and SCBNL.

#### **4.1 Financial Analysis**

Under this topic various financial ratio, which are related to fund mobilization are studied to evaluate and analyze the performance of NABIL, NIBL and SCBNL. And banks only those ratio that are important from the point of view of fund mobilization are calculated. The important ratios that are studied for this purpose are given below. The calculation of all Ratios are presented in Appendix-A

- ) Liquidity Ratio
- ) Assets Structure Ratio
- ) Profitability Ratio
- ) Growth Ratio

##### **4.1.1 Liquidity Ratio**

Liquidity ratio measures the capacity of firm to meet its cash obligation. Commercial banks must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposit withdrawals, pay maturity in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long-run profit. Following ratios are calculated under this topic.

###### **(i) Current Ratio**

Current assets are those assets, which can be converted into cash within one accounting period. And the current liabilities are those liabilities, which should be paid within the one accounting period. Current ratio occurs by dividing CA to CL that indicates the ability of a bank to meet its current obligation.

We have,

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

Where,

Current assets consist of cash and bank balance, money at call of short-term notice, loan and advances, investment in government securities and other interest receivable and other miscellaneous assets.

Current Liabilities consist of deposits, loan and advances, bills payable, tax provision, staff bonus, dividend payable and other miscellaneous current liabilities. Current ratio NABIL, NIBL and SCBNL from the year ended 07/15/2004 to the year ended 07/15/2008 are given below.

**Table 4.1**  
**Current Ratio**

<b>F/Y</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	0.92	0.92	0.87
2004/05	0.95	0.94	0.95
2005/06	0.88	0.93	0.88
2006/07	0.94	0.95	0.85
2007/08	1.24	0.98	0.86
<b>Mean</b>	0.97	0.94	0.88
<b>S.D</b>	0.130	0.021	0.035
<b>C.V (%)</b>	13.40	2.23	3.98

*(Source: Appendix A)*

Above table indicates that three banks are not capable to pay their current obligation. The comparative table has revealed that three banks have more current

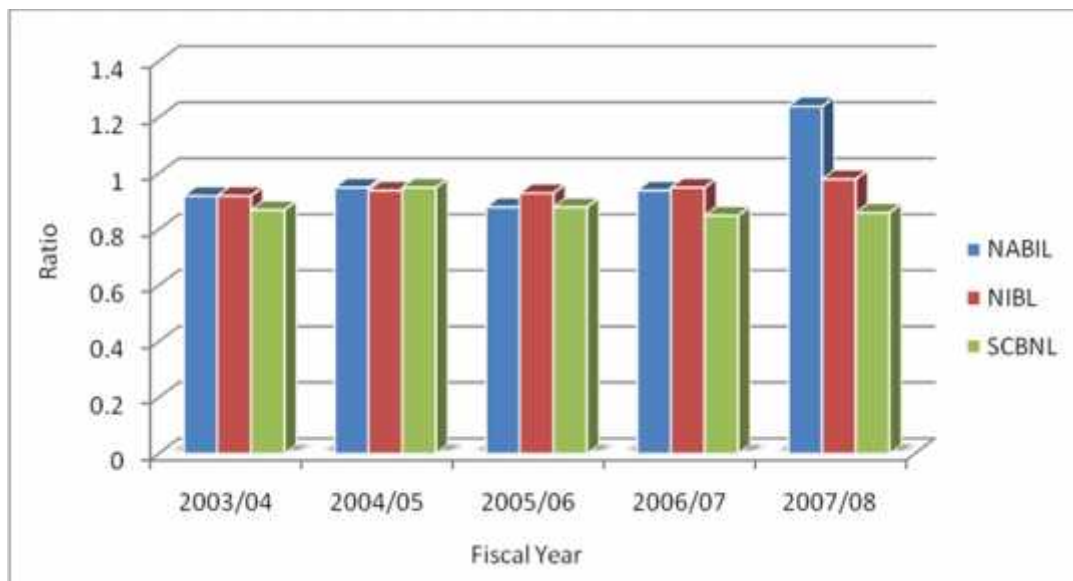
liabilities than current assets except in FY 2007/08, NABIL bank has more current assets than current liabilities.

Average mean ratio of NABIL is higher than NIBL and SCBNL i.e. 0.97% > 0.94%, 0.88% which shows that the liquidity position of NABIL is higher than NIBL and SCBNL. The lower degree of standard deviation suggest that these banks have maintained consistency in their ratio.

The co-efficient of variation between current ratio is 13.40%, 2.25% and 3.98% in terms of NABIL, NIBL and SCBNL respectively. It shows that NIBL has maintained more consistency than that of other two banks.

The above ratios are not consistent because the optimal standard ratio should be 2:1, but 1:1 is also considers for the banks. This ratio represents the relationship between cash & other current assets to its current obligation.

**Figure 4.1**  
**Current Ratio**



**(ii) Cash and Bank Balance to Total Deposit Ratio**

Cash and Bank Balance is said to be the first line defense of every bank. The ratio between the cash and bank balance and total deposit measures the ability of a bank to meet the unanticipated call on all types of deposit. Higher the ratio greater will be the ability to meet the sudden demand of deposit. But very high ratio is not desirable since bank has to pay interest on deposit. This also maximizes the cost of fund to the bank.

We have,

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

Where,

Cash and bank balance is composed up of cash on hand including foreign, cheques and other cash item; balance with domestic banks and aboard. Deposits include current deposits, saving deposits, fixed deposits, money at call or short notice and other types of deposits. Cash and Bank balance to total deposit ratio of NABIL, NIBL and SCBNL from the year ended 15/07/04 to 15/07/08 are given below in Table.

**Table 4.2**

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

<b>F/Y</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	6.90	10.65	9.56
2004/05	3.83	9.40	5.75
2005/06	3.26	12.34	5.53
2006/07	6.00	9.97	8.20
2007/08	8.37	10.90	6.90
<b>Mean</b>	5.67	10.65	7.19
<b>S.D</b>	1.92	0.99	1.52
<b>C.V (%)</b>	33.86	9.29	21.14

*(Source: Appendix B)*

The above table 4.2 shows that the cash and bank balance to total deposit ratio of three banks are fluctuating trend. NABIL highest ratio is 8.37% in year 2007/08 and lowest is 3.26% in 2005/06. In the case of NIBL's highest ratio is 12.34% in 2005/06 and lowest

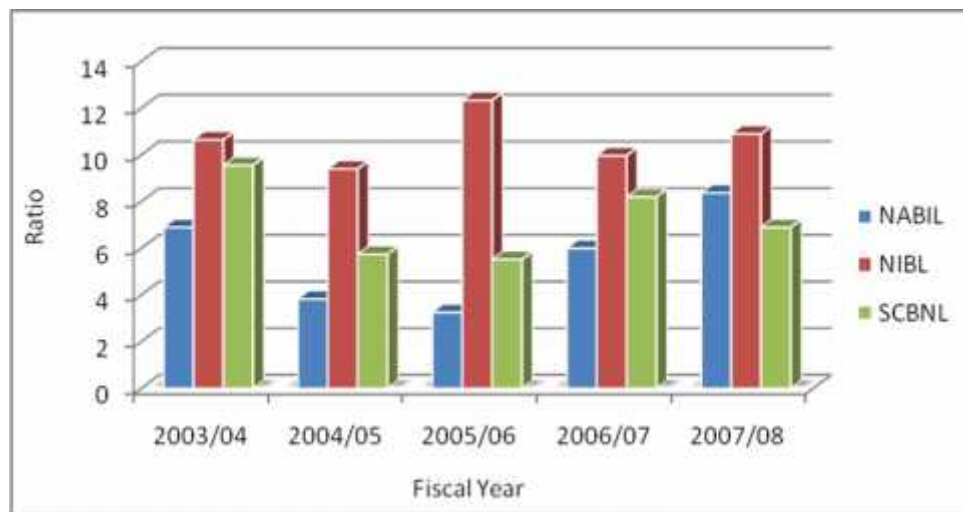
ratio is 9.40% in 2004/05. Similarly in case of SCBNL highest ratio is 9.56% in year 2003/04 and lowest is 5.53% in year 2005/06.

The mean ratio of NIBL is highest than that of NABIL and SCBNL i.e. 10.65% > 5.67% and 7.19%. It means NIBL has maintained the higher ratio of cash and bank balance to total deposit than other banks (NABIL and SCBNL).

On the basis of co-efficient variances, it can be concluded that NIBL's ratios are more consistent than that of NABIL and SCBNL i.e. 9.29% < 33.86%, 21.14%. It means the ratio of cash and bank balance to total deposit of NIBL's is stable than other banks. More risks can be seen in this ratio. But more ratio is harmful for the ratio of profit because bank should pay the interest on deposit. Therefore NIBL has maintained the cash position from deposit with satisfactory. A high ratio of non-earning cash and bank balance may be unfit which indicates the bank's inability to invest its funds in income-generating areas.

**Figure 4.2**

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



**(iii) Cash and Bank Balance to Current Assets Ratio**

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment for the customer.

Cash and Bank Balance is composed of cash on hand including foreign cheques, other cash items and balance with domestic banks and abroad.

Current assets includes cash and bank balance, money at call or short term notice, investment on government securities, loan and advances, interest receivable and other miscellaneous assets.

This ratio is calculated by dividing Cash and Bank Balance by Current Assets. Cash and Bank Balance to current Assets Ratio are presented in following table,

We have

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

Cash and Bank Balance to current Assets Ratio are presented in following table,

**Table 4.3**

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

<b>F/Y</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	7.10	11.50	10.71
2004/05	3.90	9.90	5.85
2005/06	3.60	13.20	6.13
2006/07	6.20	10.50	9.45
2007/08	6.60	11.10	7.85
<b>Mean</b>	5.48	11.24	7.99
<b>S.D</b>	1.44	1.12	1.86
<b>C.V (%)</b>	26.28	9.96	23.28

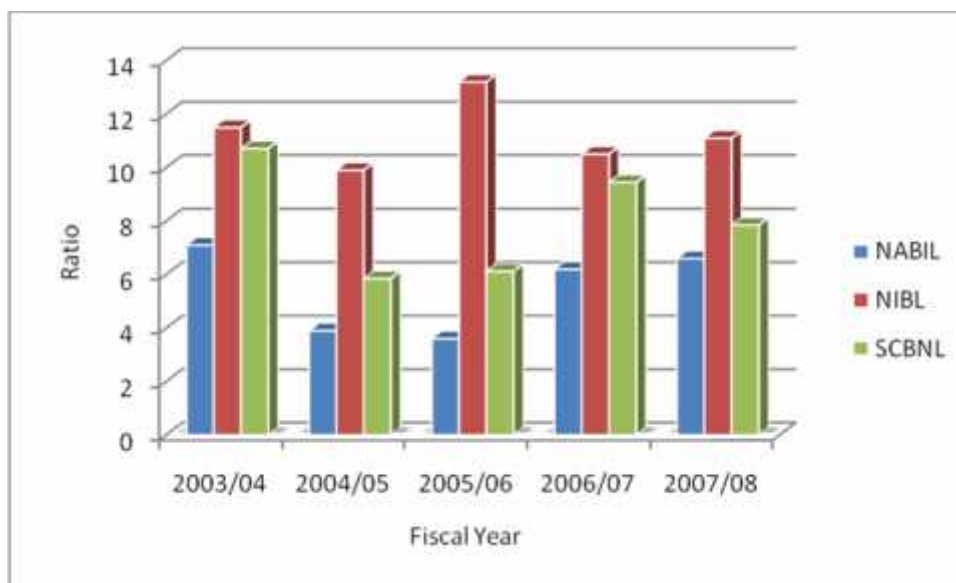
*(Source: Appendix C)*

The above table shows that the comparative cash and bank balance to current assets ratio, which is in fluctuating trend for three banks NABIL, NIBL and SCBNL. NABIL's higher ratio is 7.10 % in year 2003/04 and lowest is 3.60% in year s2005/06. Similarly NIBL's higher ratio is 11.50% in year 2003/04 and lower ratio is 9.90% in year 2004/05. SCBNL's higher ratio is 10.71% in year 2003/04 and lower ratio is 5.85% in year 2004/05.

The mean ratio of NIBL is higher than two banks. On the basis of coefficient of variation suggest that NIBL's ratio is consistent than that of NABIL and SCBNL i.e.  $9.96\% < 26.28\%, 23.28\%$ . The above analysis helps to conclude that the cash and bank balance position of NIBL with respect to current assets ratio is better than NABIL and SCBNL. It implies the better liquidity position

**Figure 4.3**

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



**(iv) Investment on Govt. Securities to Current Asset Ratio**

This ratio measures the percentage of current assets invested in government securities. Commercial banks are interested to invest some portion of their collected fund on different types of securities issued by government at different times, government securities, can be easily sold in the market or converted into cash in other ways.

This ratio shows that out of total current assets, how much percentage of it has been occupied by the investment on government securities.

This ratio is calculated by investment on government securities by total current assets. Government securities include Treasury Bills and Development Bonds.

Current Assets includes cash and bank balance, money at call or short notice, loan and advances, interest receivable, investment on government securities and other miscellaneous assets.

**Table 4.4**  
**Investment on Government Securities to Current Assets Ratio**

<b>F/Y</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	26.70	18.75	42.10
2004/05	16.73	14.37	37.92
2005/06	13.10	14.25	41.50
2006/07	21.30	13.95	33.23
2007/08	11.45	9.30	31.17
<b>Mean</b>	17.86	14.12	37.18
<b>S.D</b>	5.57	2.99	4.36
<b>C.V(%)</b>	31.19	21.18	11.73

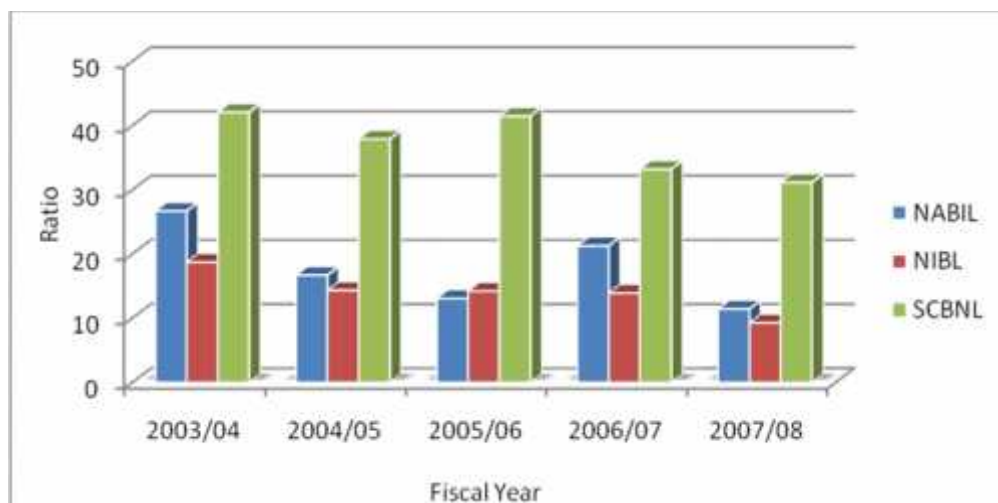
*(Source :Appendix D)*

The above table reveals that the mean ratio of investment on govt. securities to current Assets of SCBNL is higher than NABIL and NIBL i.e. 37.18% >17.86%, 14.12% NABIL and SCBNL has followed the fluctuating trend but NIBL'S performance is decreasing trend.

On the basis of co-efficient of variation SCBNL has more consistent than that of NABIL and NIBL i.e. 11.73% < 31.19%, 21.18%.

From the analysis we can say that NABIL & NIBL investing position of current assets as government securities indicates that it wants to invest its more funds in other productive sector.

**Figure 4.4**  
**Investment on Government Securities to Current Assets Ratio**



#### (v) Loan and Advances to Current Assets Ratio

Loans and advances are the current assets of commercial bank, which includes loan and advances, cash, credit, overdraft, loan and foreign bill purchase and discount. A commercial bank should not keep its all collected fund as cash and bank balances but they should be invested a loan and advance to the customer because they must earn high profit by mobilization funds for long life banking. They should pay interest on these deposit funds even they don't generate loan and advances and may lose some earning. But high loan and advances may be harmful because they need sufficient liquidity.

The ratio is calculated by dividing loan and advances to current assets. The ratios are presented in the following tables.

**Table 4.5**

#### **Loan and Advances to Current Assets Ratio**

<b>F/Y</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	59.55	66.84	35.45
2004/05	73.40	74.70	44.33
2005/06	73.50	72.16	42.90
2006/07	68.77	74.0	49.10
2007/08	52.65	79.62	52.55
<b>Mean</b>	65.57	73.46	44.87
<b>S.D</b>	8.22	4.13	5.83
<b>C.V (%)</b>	12.51	5.62	12.99

(Source: Appendix E)

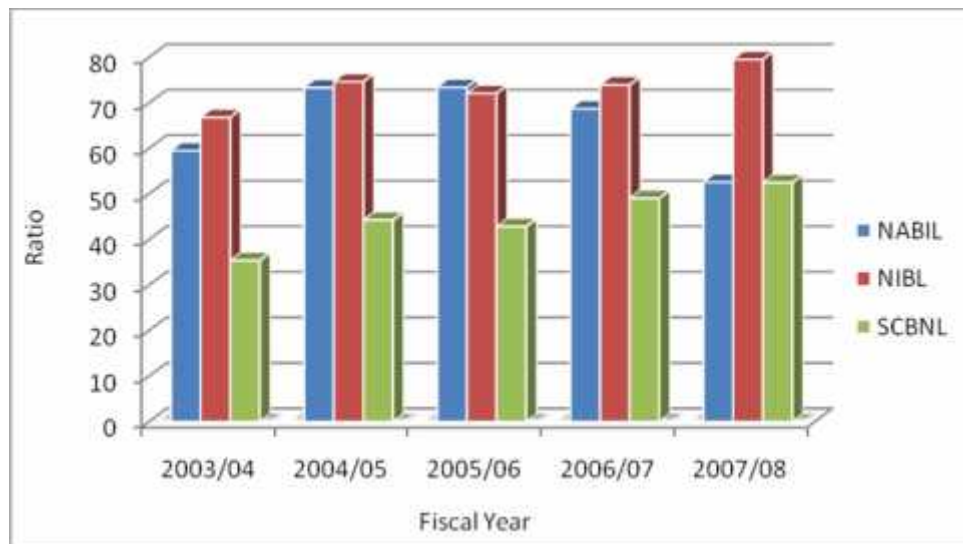
The above table shows that three bank's loan and advances to current assets ratio are in a fluctuating trend. The highest ratio of NABIL is 73.50% in F/Y 2005/06. Similarly NIBL's higher ratio is 79.62% in F/Y 2007/08 and the higher ratio of SCBNL's is 52.55% in FY 2007/08.

In case of the mean ratio, NIBL has maintained high ratio in comparison to NABIL and SCBNL i.e. 73.46% > 65.57%, 44.87%. The higher mean ratio of loan and advances to current assets of NIBL reveals that its liquidity position with regard to its current asset is more satisfactory than that of NABIL and SCBNL.

On the basis of Co-efficient of variation NIBL is more consistent than that of NABIL and SCBNL i.e. 5.62% < 12.51%, 12.99%.

**Figure 4.5**

**Loan and Advances to Current Assets Ratio**



#### **4.1.2 Assets Structure Ratio**

Assets Structure ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner.

A commercial bank must manage its assets properly to earn high profit. Under this chapter following ratios are studied.

**(i) Loans and Advances to Total Deposit Ratio**

The ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances. This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan and advances for the purpose of profit generation.

A high ratio of loan and advances indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. This ratio is calculated by dividing loan and advances by total deposits.

We have,

$$\text{Loan and advances to Total Deposit Ratio} = \frac{\text{Loan \& Advance}}{\text{Total Deposits}}$$

The table below shows the ratio of loan & advances to total deposit ratio of NABIL, NIBL and SCBNL

**Table 4.6**  
**Loan and Advances to Total Deposit Ratio**

<b>FY</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	58.01	61.87	31.63
2004/05	72.57	71.04	43.55
2005/06	66.80	67.50	38.75
2006/07	66.60	70.59	42.61
2007/08	66.94	78.36	46.12
<b>Mean</b>	66.18	69.87	40.53
<b>S.D</b>	4.66	5.36	5.04
<b>C.V (%)</b>	7.04	7.67	12.43

*(Source: Appendix F)*

According to above table ratio of loan and advances to total deposit of NABIL, NIBL and SCBNL with comparative base. All three banks have mobilized the collected deposit in fluctuating trend during the period under study.

In case of NABIL, highest ratio is 72.57% in year 2004/05 and lowest ratio is 58.01% in 2003/04. Similarly the highest ratio of NIBL and SCBNL 78.36% and 46.12% in year 2007/08 and lowest ratios are 61.87% and 31.63% in year 2003/04.

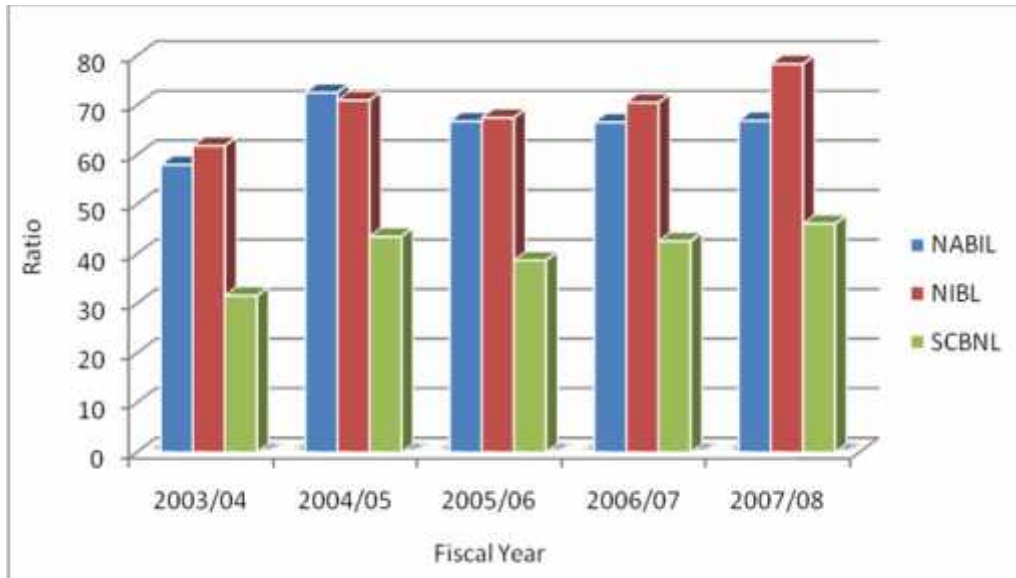
In the study of mean ratio NIBL has mobilized its collected deposits in loan and advances more than that of NABIL and SCBNL. SCBNL has mobilized its collected deposit in loan and advances with 40.53% which is less than 66.18% and 69.87 % of Nabil and NIBL respectively. Nabil and NIBL are seemed to profit oriented in the case than SCBNL.

The co-efficient of variation of NABIL, NIBL and SCBNL are 7.04%, 7.67% and 12.43% respectively. This result shows that SCBNL is not stable and consistent than NABIL and NIBL because there is more variation between the ratio of SCBNL in the study period.

Comparatively, it can be concluded that SCBNL is weak in mobilizing the collected deposits in loan and advances than that of NABIL and NIBL.

It should be noted that in the process of loan management of bank assets, so many factors are to consider such as risk analysis, diversification, social responsibility, bank credit policy compensation policy, limits of lending power etc.

**Figure 4.6**  
**Loan and Advances to Total Deposit Ratio**



## (ii) Loans and Advances to Total Working Fund Ratio

Loans and advances is an important part of total assets (Total Working Fund). Commercial banks must be very careful in mobilizing its total assets as loan and advances in appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund on loan and advances and vice versa.

This ratio is calculated by dividing loan and advances by total working fund i.e. total assets.

We have,

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

The table below shows the loan & advances to total working fund ratio of NABIL, NIBL and SCBNL.

**Table 4.7**

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

<b>FY</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	48.91	53.79	28.31

2004/05	61.60	62.22	37.98
2005/06	57.87	59.90	34.67
2006/07	57.04	62.65	36.76
2007/08	57.54	69.45	41.15
<b>Mean</b>	56.60	61.60	35.77
<b>S.D</b>	4.17	5.03	4.28
<b>C.V (%)</b>	7.37	8.17	11.97

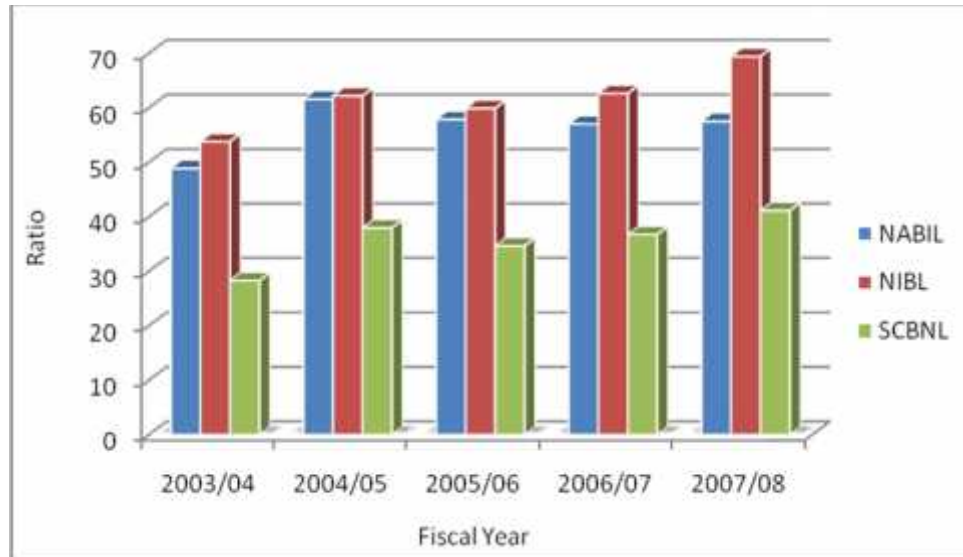
*(Source: Appendix G)*

Above table describes the loan and advances to total working fund ratio of NABIL, NIBL and SCBNL in fluctuating trend. In the study period NABIL's highest ratio is 61.60% in year 2004/05 and lowest ratio is 48.91% in year 2003/04. Similarly NIBL's and SCBNL's highest ratio is 69.45% & 41.15% in year 2007/08 and lowest ratio is 53.79% & 28.31% in year 2003/04 respectively.

On the basis of mean ratio, SCBNL maintain lowest ratio than NABIL and NIBL. The mean ratio of SCBNL is 35.77% but NABIL and NIBL have 56.60% and 61.60% respectively. So, the ratio of SCBNL has weak position on loan and advances to total working fund ratio than NABIL and NIBL. So it must improve the ratio to obtain more gain from loan and advances.

On the basis of co-efficient of variation NABIL has maintained less c.v i.e 7.37% which can show the NABIL has more consistency than that of NIBL and SCBNL i.e 8.17% & 11.97% respectively.

**Figure 4.7**  
**Loan and Advances to Total Working Fund**



### (iii) Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposits by investing its fund in different securities issued by government and other financial or non-financial institutions. This ratio measures the extent to which the banks are able to mobilize their deposits on investment in various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

We have,

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

**Table 4.8**

**Total Investment to Total Deposit Ratio**

<b>FY</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	41.33	33.51	53.68
2004/05	29.25	27.6	50.18
2005/06	31.93	29.60	55.71
2006/07	38.32	26.57	54.99
2007/08	31.14	19.95	46.74
<b>Mean</b>	34.39	27.45	52.26
<b>S.D</b>	6.98	4.44	3.35
<b>C.V(%)</b>	20.30	16.17	6.41

*(Source: Appendix H)*

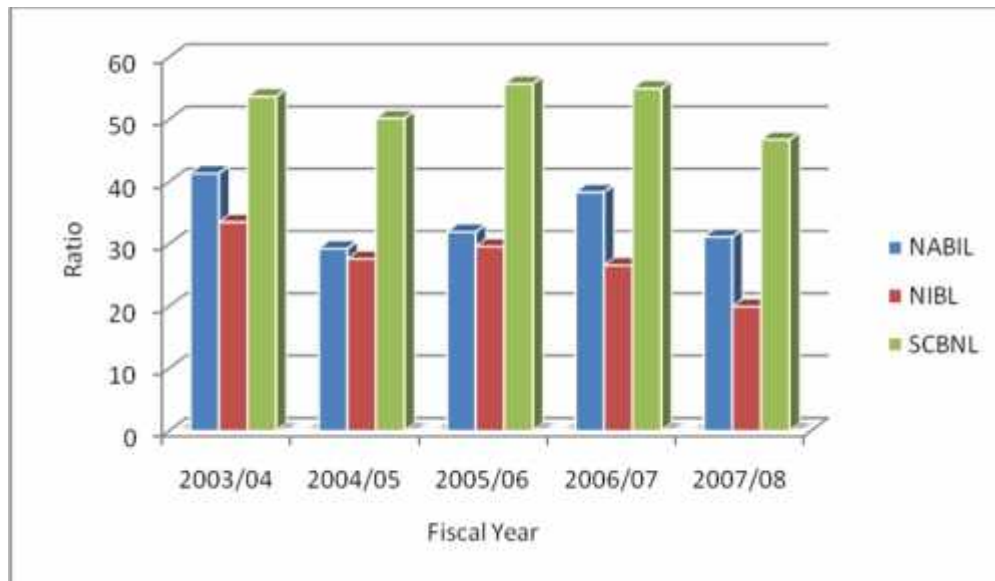
Above table shows the total investment to total deposit ratio of Nabil, SCBNL and NIBL have fluctuating trend of ratios under five years study period. In the study period, NABIL has 41.33% highest ratio in year 2003/04 and 29.25% lowest ratio in year 2004/05.

Similarly, NIBL and SCBNL have 33.51% and 55.71% highest ratio in year 2003/04 & 2005/06 respectively and have 19.95% and 46.74% lowest ratio in same year 2007/08. In the study of mean ratio, SCBNL has mobilized and use its deposits on investment better than NABIL and NIBL because SCBNL's mean ratio is higher than that of NABIL and SCBNL i.e. 52.26% > 34.39%, 27.45% respectively.

The co-efficient of variation of SCBNL is 6.41%, which is less than the co-efficient of variation of NABIL and NIBL i.e.20.30% and 16.17% respectively, it means, SCBNL is more stable and consistent in case of this ratio. It is concluded that SCBNL is successful in mobilizing of its collected deposit on investment than NABIL and NIBL.

**Figure 4.8**

**Total Investment to Total Deposit Ratio**



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

All the resource of a bank is never used as loan and advances. A bank mobilizes its fund in various ways. To some extent commercial bank seems to utilize its fund by purchasing government securities. A government security is a safe medium of investment though it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as invest on Government Securities and low ratio also indicates the minimum income generate. So the government security is a current asset which is invested by external parties. These types of securities can be sold in the market.

This ratio is calculated by dividing investment on government securities by total working fund. The following table shows the ratio of investment on government securities to total working fund of NABIL, NIBL and SCBNL.

We have,

Investment on Government Securities to Total Working Fund Ratio

$$= \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

Investment on government securities to Total Working Fund ratio of NABIL, NIBL and SCBNL from the FY 2003 to 2008 are given below.

**Table 4.9**

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

<b>FY</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	21.93	15.10	59.96
2004/05	14.05	11.97	44.26
2005/06	10.31	11.80	40.53
2006/07	17.64	11.80	25.76
2007/08	12.51	8.12	20.93
<b>Mean</b>	15.29	11.75	38.29
<b>S.D</b>	4.09	2.21	13.92
<b>C.V(%)</b>	26.75	18.81	36.35

*(Source: Appendix I)*

Above comparatively table shows the investment on government securities to total working fund ratio of NABIL, NIBL and SCBNL in fluctuating trend. The highest ratio of NABIL, NIBL and SCBNL has 21.93%, 15.10% and 59.96% in same year 2003/04 and lowest ratio of NABIL, NIBL and SCBNL has 10.31% , 8.12% and 20.93% in year 2005/06 , 2007/08 , 2007/08 Similarly.

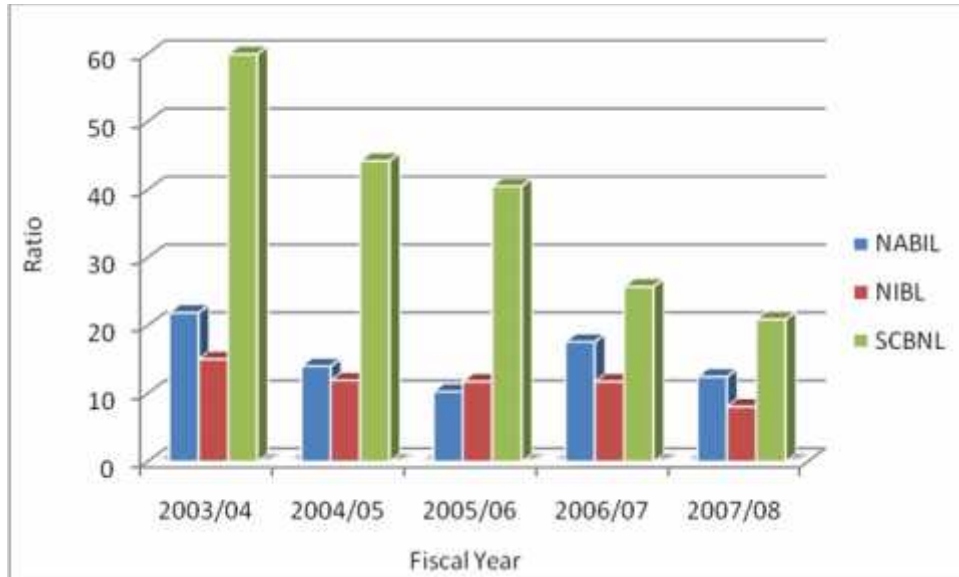
The comparison of mean ratio of five years period, SCBNL seems more successful to invest its fund in government securities than NABIL and NIBL. SCBNL has highest mean ratio than NABIL and NIBL i.e. 38.29% > 15.29%, 11.75% respectively.

On the basis of co-efficient of variation, NIBL is more stable and consistent than NABIL and SCBNL because it has less C.V than other banks i.e 18.81%, 26.75% & 36.35%.

From the above analysis, it can be concluded that NIBL has invested its more portion of working fund on government securities in compare to NABIL and SCBNL.

**Figure 4.9**

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



**(v) Investment on Share and Debenture to Total Working Fund**

Mainly, total investment has been broken down into two parts i.e. investment government securities and investment on shares & debentures. Now a days commercial banks are interested to invest its fund not only on government securities but also shares and debentures of other different types of companies. During the study period most of the commercial banks in Nepal have purchased shares of regional development banks. But some of these have purchased the shares of other companies.

Investment on shares and debentures to total working fund ratio reflects the extent on which the banks are successful to mobilize their total assets on purchase of share and debentures of other companies to generate income and utilize their excess fund. A high ratio indicates more portion of investment on shares and debenture out of total working fund and vice-versa.

This ratio is calculated by dividing investment on shares by total working fund. The following table no-8 shows the ratios of investment on shares to total working fund of NABIL, NIBL and SCBNL of study period.

We have,

Investment on Shares and Debentures to Total Working Fund Ratio

$$= \frac{\text{Investment in Shares and Debentures}}{\text{Total Working Fund}}$$

**Table 4.10**

**Investment on Share and Debenture to Total Working Fund Ratio**

<b>FY</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	0.79	0.10	0.08
2004/05	2.56	0.11	0.08
2005/06	0.47	0.08	0.07
2006/07	1.05	0.13	0.16
2007/08	0.87	0.15	0.29
<b>Mean</b>	1.15	0.11	0.14
<b>S.D</b>	0.73	0.024	0.084
<b>C.V(%)</b>	63.48	21.82	60.0

*(Source: Appendix J)*

The above table shows the ratio of investment on share and debenture to total working fund has very nominal percentage of all three banks. The ratio percentage is less than 1% excepting NABIL. From this, it can be concluded that they have invested only a small volume of fund in share and debenture of other banks and companies.

NABIL has highest ratio 2.56% in year 2004/05 and lowest ratio 0.47% in year 2005/06. Similarly NIBL and SCBNL has highest ratio 0.15% and 0.29 % in year 2007/08. Lowest ratio of NIBL and SCBNL has 0.08% and 0.07% in same year 2005/06.

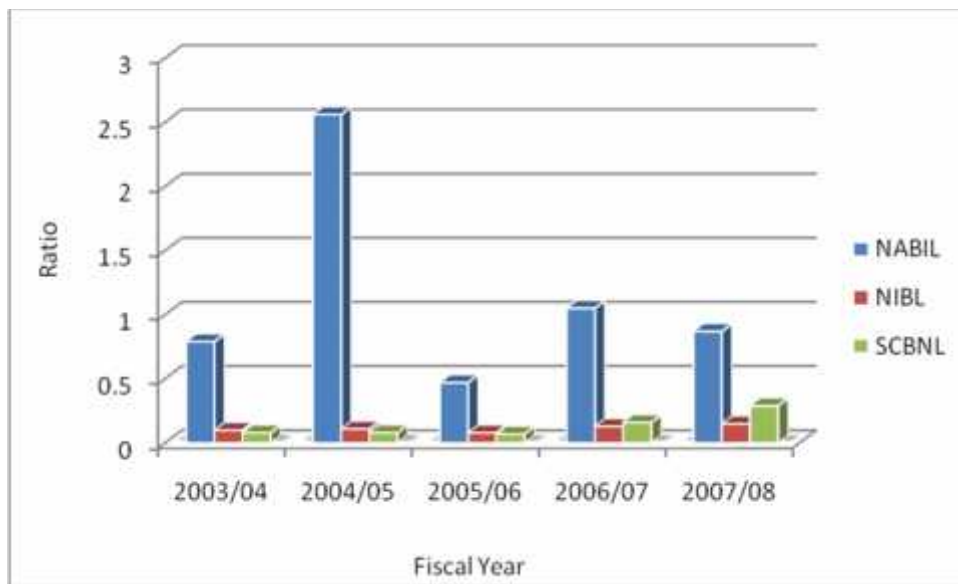
Comparatively NABIL has invested its fund in share more than NIBL and SCBNL. In the mean ratio, NABIL has highest mean ratio of investment in share and debenture, which is

highest than NIBL and SCBNL i.e.  $1.15\% > 0.11\%$   $0.14\%$  Therefore, NABIL seems in strong condition than NIBL and SCBNL

The co-efficient of variation shows NIBL is more stable and consistent than NABIL and SCBNL i.e.  $21.82\% < 63.48\%$  ,  $60.0\%$  respectively.

**Figure 4.10**

**Investment on Share and Debenture to Total Working Fund Ratio**



**4.1.3 Profitability Ratio**

Profit is the backbone of the financial institutions and commercial banks. Profitability ratio are very helpful to measure the overall efficiency of operation of a financial in the context of banks, strictly speaking no bank can survive without profit. Profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investment of different kinds. Sufficient profit is must to have good liquidity. To grab investment opportunities expand banking transactions finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for a bank. Profitability ratios measure the efficiency of bank. Higher the ratio shows that higher the efficiency of a bank.

The following profitability ratios are related to study in this heading.

**(i) Return on Total Asset (Total Working Fund)**

Return is the result of investment and it measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks working fund is well managed and are efficiently utilized, minimizing taxes within the legal options available will also improve the return.

We have,

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

Where net profit includes the profit that is left to the internal equities after all costs, charge & expenses, which is shown in the table of NABIL, NIBL and SCBNL.

The following table shows the profitability position of NABIL, NIBL and SCBNL with the respect to total assets.

**Table 4.11**  
**Return on Total Assets Ratio**

<b>FY</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	2.72	1.15	3.54
2004/05	3.0	1.43	2.43
2005/06	2.84	1.64	2.56
2006/07	2.47	1.82	2.42
2007/08	2.0	1.80	2.46
<b>Mean</b>	2.60	1.57	2.68
<b>S.D</b>	0.35	0.25	0.43
<b>C.V(%)</b>	13.46	15.92	16.04

*(Source: Appendix K)*

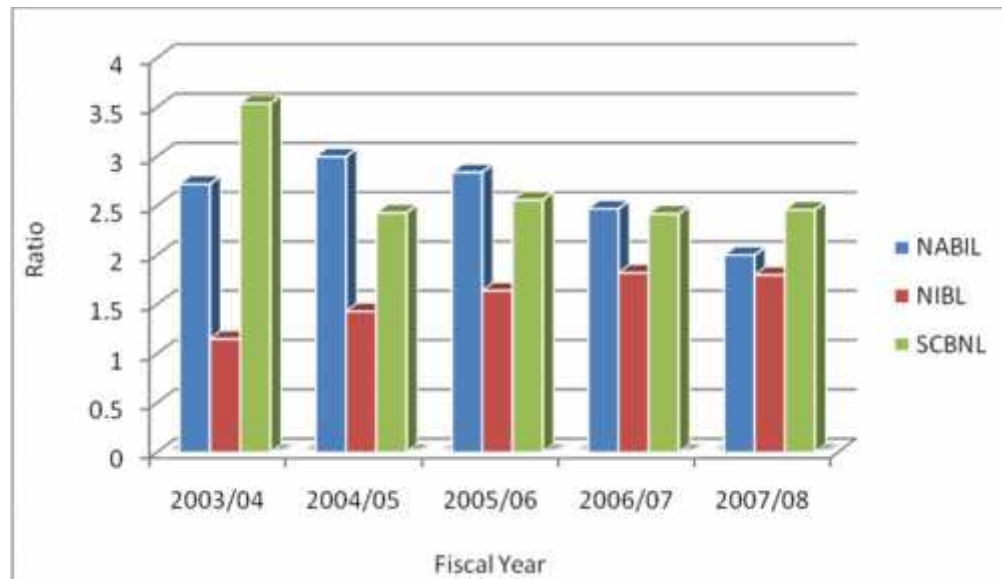
The above table shows the return ratio on total assets of NABIL, NIBL and SCBNL comparatively under five years study period. The table shows that the profitability of banks are fluctuating trend. NABIL has highest ratio 3.0% in year 2004/05 and lowest ratio 2.0% in 2007/08. In the same way NIBL and SCBNL have highest ratios 1.82% and 3.54% in year 2006/07 and 2003/04 respectively and lowest ratios are 1.15% and 2.42% in year 2003/04 and 2006/07 respectively.

In the average study SCBNL has 2.68%, it seems more successful to earn on total assets. But NABIL and NIBL have only 2.6% and 1.57% return on total assets respectively. So SCBNL is highly efficiency to earn profit and return as well.

Coefficient of variation shows that NABIL has no more variance between the yearly ratio under five year's study period than NIBL and SCBNL i.e. coefficient of variation of NABIL is 13.46% is less than coefficient of variation of NIBL and SCBNL are 15.92% and 16.04% respectively.

From the above analysis it can be said that NABIL is strong position in the earning capacity by utilizing available resources then other banks. So it is significant and consistently more stables to earn capacity maintained and net profit generated than other bank.

**Figure 4.11**  
**Return on Total Assets Ratio**



**(ii) Return on Loan and Advance Ratio**

This ratio measures the earning capacity of the commercial banks through its fund mobilization as loan and advances. A high ratio indicates greater success to mobilize fund as loan and advances and vice versa.

This ratio calculated by dividing net profit by total amount of loan and advances. The following table shows the return on loan and advances ratio of NABIL, NIBL and SCBNL of study period.

**Table 4.12**  
**Return on Loan and Advance Ratio**

<b>FY</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	5.56	2.14	8.03
2004/05	4.90	2.30	6.40
2005/06	4.92	2.74	7.37
2006/07	4.33	2.90	6.59
2007/08	3.50	2.58	5.96
<b>Mean</b>	4.64	2.53	6.87
<b>S.D</b>	0.69	0.28	0.74
<b>C.V(%)</b>	14.87	11.07	10.77

*(Source: Appendix L)*

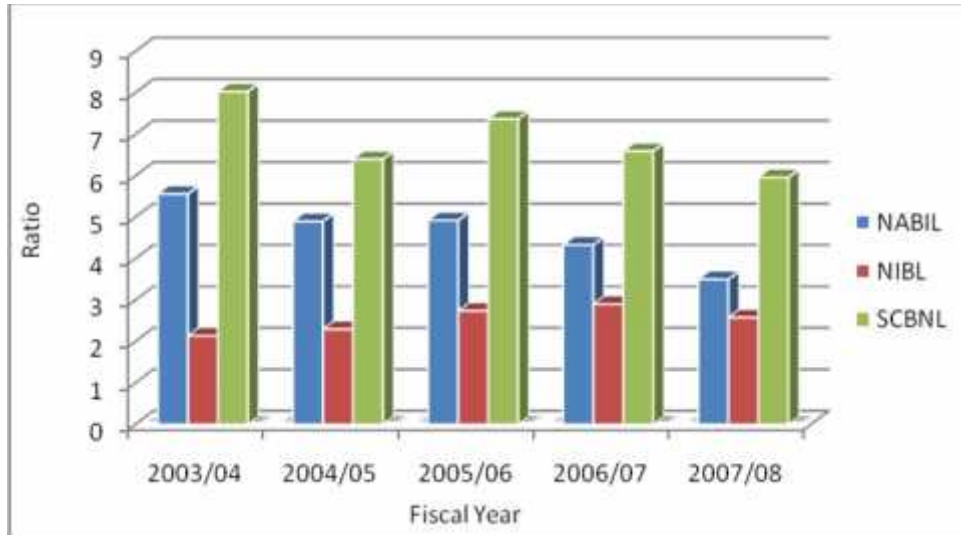
From the above comparative table, it shows that the ratios of NABIL, NIBL and SCBNL are in fluctuating trend. During the study period, the highest ratio of NABIL is 5.56% in year 2003/04 and the lowest ratio is 4.33% in year 2006/07. In case of NIBL, the highest ratio is 2.90% in year 2006/07 and the lowest ratio is 2.14% in year 2003/04. SCBNL, the highest ratio is 8.03% and lowest ratio is 5.96% in year 2003/04.

On the other hand, when the mean ratios are observed SCBNL has higher ratio than NABIL and NIBL i.e. 6.07% > 4.64% & 2.53%. It shows that SCBNL has been more successful in maintaining its higher return on loan and advances than NABIL and NIBL.

Likewise, higher C.V. of NABIL i.e. 14.87% indicates high variability of ratios than that of NIBL and SCBNL. Which shows that profit earning capacity of NABIL by utilizing available resources is weaker than that of NIBL and SCBNL.

**Figure 4.12**

**Return on Loan and Advance Ratio**



**(iii) Total Interest Earned to Total outside Asset Ratio**

The outside assets have played a significant role in commercial banks as a main asset which includes loan and advances, investment on government securities, investment on share and debentures and all other types in investment. A high ratio indicates high earning on total outside assets and vice versa.

This ratio is calculated by dividing total interest earned by total outside assets. The ratio of NABIL, NIBL and SCBNL over the study period has been tabulated below.

**Table 4.13**

**Total Interest Earned to Total Outside Assets Ratio**

<b>FY</b>	<b>NABIL</b>	<b>NIBL</b>	<b>SCBNL</b>
2003/04	6.0	4.43	5.23
2004/05	6.14	4.40	5.14
2005/06	6.22	4.45	5.04
2006/07	5.0	4.37	5.66
2007/08	4.63	3.98	5.1
<b>Mean</b>	5.6	4.33	5.23
<b>S.D</b>	0.65	0.18	0.22
<b>C.V (%)</b>	11.61	4.16	4.21

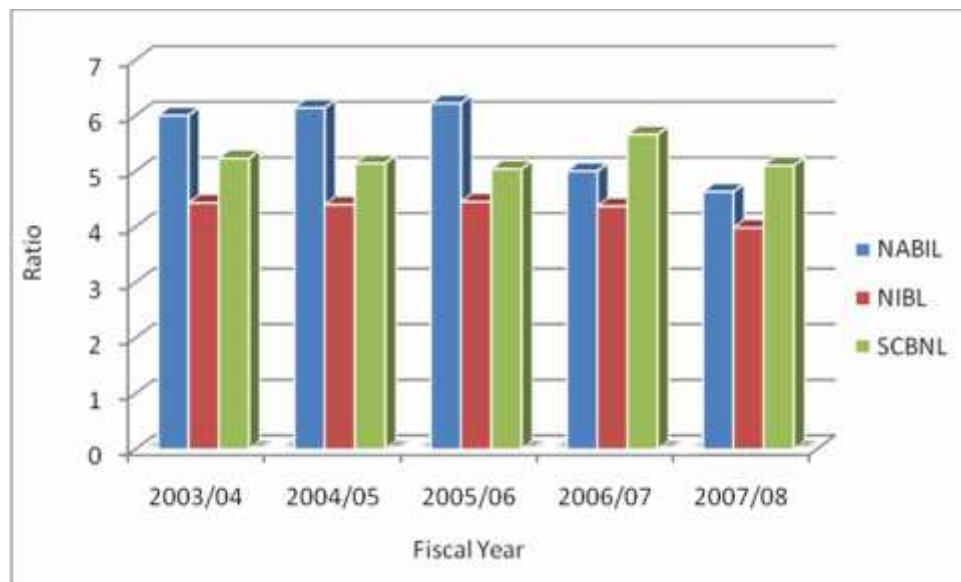
*(Source: Appendix M)*

From the above comparative table three bank's ratio's are in fluctuating trend during the period under study. On the other hand, mean ratio of NABIL is higher than SCBNL and NIBL. NABIL seems to have earned higher amount of interest on their outside assets in comparison to SCBNL and NIBL, i.e. 5.6% > 5.23% & 4.33%.

Moreover, C.V. of NIBL is significantly lower than that of NABIL and SCBNL i.e. 4.16% < 11.61% & 4.21%.

**Figure 4.13**

**Total Interest Earned to Total Outside Assets Ratio**



#### 4.1.4 Growth Ratio

Growth ratios are analyzed and interpreted which are directly related to the fund mobilization and investment of a commercial bank. It represents how well the commercial banks are maintaining their economic and financial position. Under this three types of growth ratio are studied which as follows:

- a. Growth ratio of total investment
- b. Growth ratio of total deposit
- c. Growth ratio of loan and advances
- d. Growth ratio of net profits

**a. Growth ratio of Total Investment**

This ratio can be calculated by dividing the last period figure by the first period figure then by referring to the compound interest tables. The high ratio generally indicates better performance of a banks and vice-versa.

This ratio shows whether the sample bank had increased or decreased the total investment. The following table shows the growth ratio of NABIL, NIBL and SCBNL.

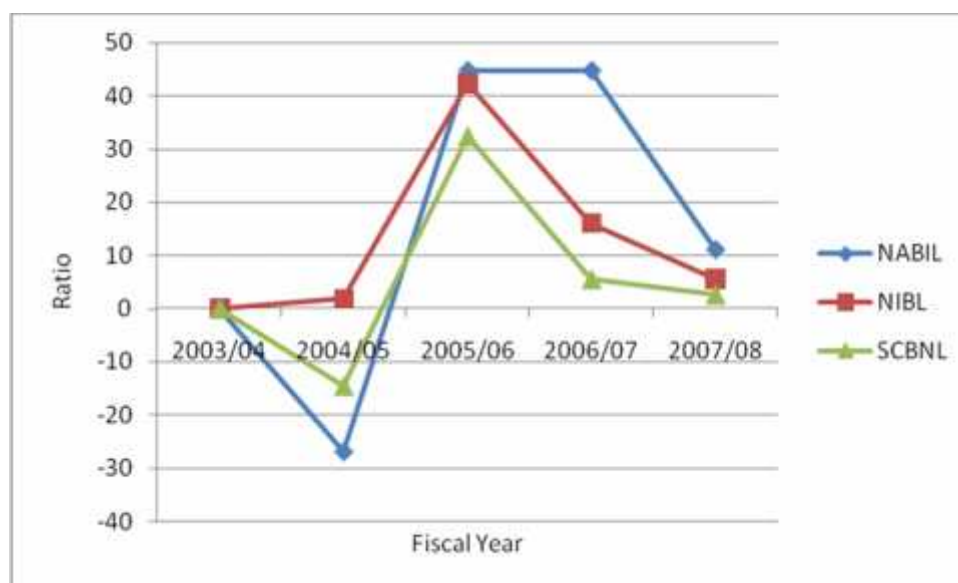
**Table 4.14**  
**Growth Ratio of Total Investment**

(Rupees in '000')

FY	NABIL		NIBL		SCBNL	
	Total Investment (Rs. in '000')	%	Total Investment (Rs. in '000')	%	Total Investment (Rs. in '000')	%
2003/04	5835948	–	3862483	–	11360328	–
2004/05	4267233	(26.88)	3934189	1.86	9702553	(14.60)
2005/06	6178533	44.79	5602869	42.41	12847536	32.41
2006/07	8945311	44.78	6505680	16.11	13553233	5.50
2007/08	9939771	11.12	6874024	5.66	13902819	2.60
Mean		14.76		13.21		5.18

The above table reveals that the growth ratio of investment of NABIL is higher than NIBL and SCBNL 14.76 % > 13.21% and 5.18% respectively. It indicates that NABIL's performance is better on investment of different sectors in comparison to NIBL and SCBNL.

**Figure 4.14**  
**Growth Ratio of Total Investment**



**b. Growth Ratio of Total Deposit**

This ratio can be calculated by dividing the last period figure by the first period figure then by referring to the compound interest tables. The high ratio generally indicates better performance of a bank.

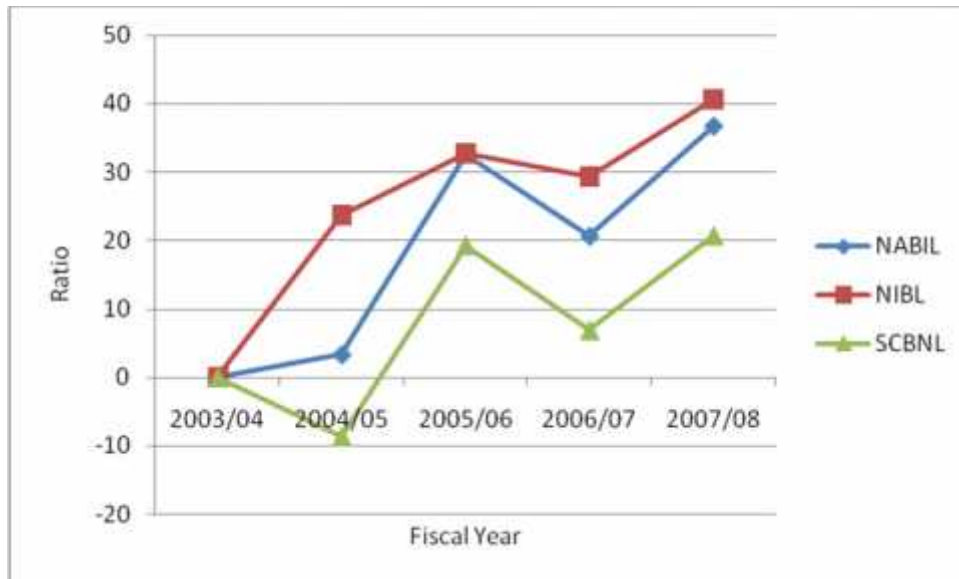
**Table 4.15**  
**Growth Ratio of Total Deposit**

(Rupees in 000)

FY	NABIL		NIBL		SCBNL	
	Total Deposit (Rs. in '000')	%	Total Deposit (Rs. in '000')	%	Total Deposit (Rs. in '000')	%
2003/04	14119033	—	11524679	—	21161442	—
2004/05	14586609	3.31	14254574	23.69	19335095	(8.63)
2005/06	19347399	32.63	18927306	32.78	23061032	19.27
2006/07	23342285	20.65	24488855	29.38	24647021	6.88
2007/08	31915047	36.73	34451726	40.70	29743999	20.68
Mean		18.66		25.31		7.64

The above table shows that the growth ratio of total deposits of NIBL is higher than the NABIL and SCBNL. The growth ratio of NIBL's total deposit is 25.31% whereas the same of the NABIL and SCBNL are 18.66% and 7.64% respectively. It indicates that NIBL can successful in increasing deposit funds in comparison to NABIL and SCBNL.

**Figure 4.15**  
**Growth Ratio of Total Deposit**



**c. Growth Ratio of Loan and Advances**

This ratio can be calculated by dividing the last period total investment figure by the first period figure then by referring to the compound interest tables. The high ratio generally indicates better performance of a bank.

**Table 4.16**  
**Growth Ratio of Loan and Advances**

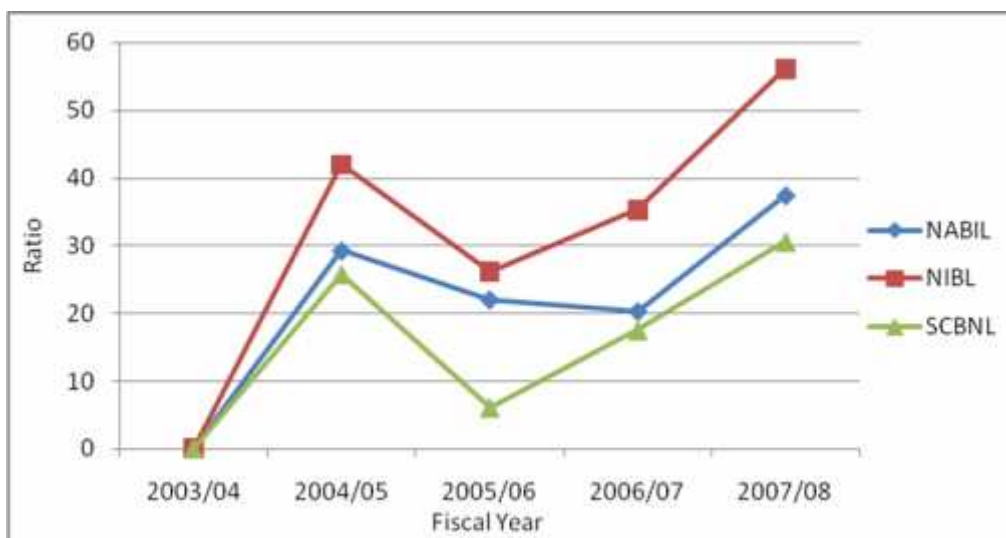
(Rupees in '000')

FY	NABIL		NIBL		SCBNL	
	Loan & Advances	%	Loan & Advances	%	Loan & Advances	%
2003/04	8189993	–	7130125	–	6693862	–
2004/05	10586170	29.25	10126056	42.01	8420869	25.80
2005/06	12922543	22.01	12776208	26.17	8935418	6.11
2006/07	15545779	20.30	17286427	35.30	10502637	17.54
2007/08	21365053	37.43	26996652	56.17	13718597	30.62
Mean		21.80		31.93		16.01

The above comparative table reveals that the growth ratio of loan and advances in Case of NIBL are significantly higher than NABIL and SCBNL i.e. 31.93% > 21.80% & 16.01%. It indicates that NIBL is more successful in utilizing its collection fund as loan and advances in comparison to NABIL and SCBNL.

From the above analysis it can be said that the performance of NIBL to grant loan and advance in compare to NABIL and SCBNL is better year by year.

**Figure 4.16**  
**Growth Ratio of Loan and Advances**



#### d. Growth Ratio of Net Profit

This ratio can be calculated by dividing the last period net profit figure by the first period figure then by referring to the compound interest tables. The high ratio generally indicates better performance of a bank.

**Table 4.17**

#### **Growth Ratio of Net Profit**

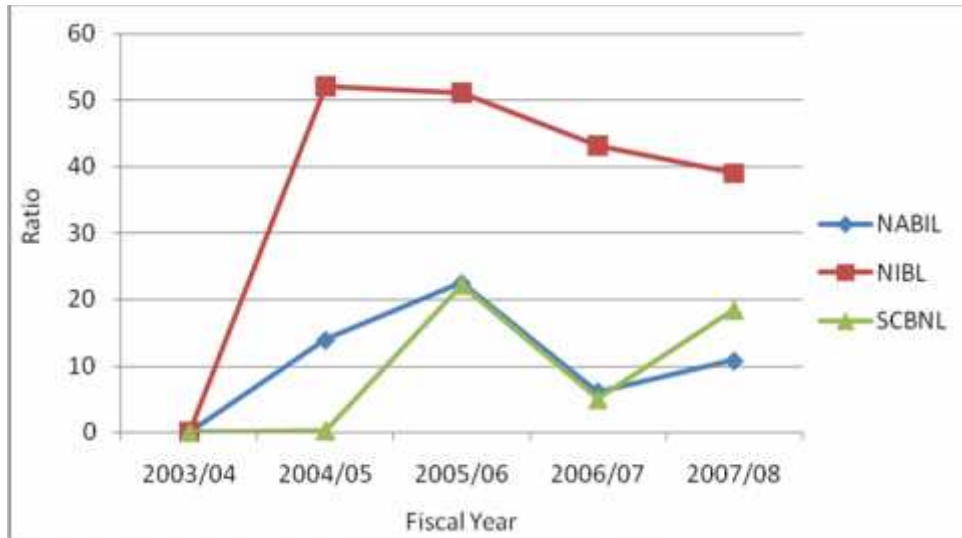
(Rupees in '000')

FY	NABIL		NIBL		SCBNL	
	Net Profit (Rs.)	%	Net Profit (Rs.)	%	Net Profit (Rs.)	
2003/04	455311	-	152671	-	537800	-
2004/05	518637	13.90	232127	52.04	539204	0.26
2005/06	635264	22.48	350536	51.01	658755	22.17
2006/07	673959	6.10	501399	43.04	691668	4.97
2007/08	746468	10.76	696732	38.95	818921	18.40
Mean		10.65		37.01		9.16

The above comparative table reveals that the growth ratio of net profit in case of NIBL are significantly higher than NABIL and SCBNL i.e. 37.01% > 10.65% & 9.16%. It indicates that NIBL is more successful in comparison to NABIL and SCBNL. From the above analysis it can be said that the performance of NIBL is better than other banks.

**Figure 4.17**

#### **Growth Ratio of Net Profit**



## 4.2 Statistical Analysis

The chapter describes the statistical analysis of NABIL, NIBL and SCBNL by using statistical tools such mean, standard deviation, co-efficient of correlation, co-efficient of variation, trend analysis. Such types of statistical analysis of different joint venture banks are presented in below. To achieve the objective of this study these statistical tools are used.

### 4.2.1 Coefficient of Correlation Analysis

In this analysis, Karl Pearson's coefficient of correlation has been used to find out the relationship between variables. Correlation analysis describes the relationship between variables with positive or negative. It helps to determine whether

- ) A positive or negative relationship exists.
- ) The relationship is significant or insignificant
- ) Establish cause and effect relation if any

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

For the purpose of decision-making interpretation are based on following terms.

When,  $r = 1$ , there is perfect positive correlation.

When,  $r = -1$ , there is perfect negative correlation.

When,  $r = 0$ , there is no correlation.

When, 'r' lies between 0.7 to 0.999 (-0.7 to 0.999), there is a high degree of Positive (or negative) correlation.

When, 'r' lies between 0.5 to 0.699 there is moderate degree of correlation.

When, 'r' less than 0.5, there is low degree of correlation.

### (i) Correlation Coefficient between Deposit and Loan and Advances

Deposits have played very important role in performance of a commercial bank and similarly loan and advances are very important to mobilize the collected deposits. Coefficient of correlation between deposit and loan and advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variable (x) and loan and advances are dependent variable (y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as loan and advances in proper way or not.

The following table shows the value of  $r$ ,  $r^2$ , P. Er. and 6 P.Er. between total deposit and loan and advances of NABIL and NIBL during the study period. For detail see appendix N.

**Table 4.18**  
**Correlation Coefficient between Deposit and Loan and Advances**

Name of Banks	Base of Evaluation			
	R	$R^2$	P.Er.	6 P.Er.
NABIL	0.40	0.16	0.25	1.5
NIBL	0.99	0.98	0.0030	0.018
SCBNL	0.92	0.85	0.045	0.27

(Source: Appendix N)

From the above table, it has been seen that correlation between deposit and loan and advances is 0.40 in case of NABIL. It means positive relation between two variables. True value of coefficient of determination ( $R^2$ ) is 0.16 and it means 16% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). Similarly, considering the value of 'r' i.e. 0.40 and comparing it with

6.P.E.r. i.e. 1.5. Since that the value of 'r' is less than 6. P.Er, which shows that the value of 'r' is insignificant. In other word, there is no significant relationship between deposit and loan and advances in the case of NABIL.

Likewise, in the case of the NIBL, the co-efficient of correlation between deposit (independent variables) and loan and advances (dependent variable) is 0.99 which indicates positive co-relation between two variables. Similarly, the value of coefficient of determination (R<sup>2</sup>) is to be found 0.98, which shows that 98% in the dependent variable has been explained by the independent variable. Moreover, considering the 6.P.Er. i.e. 0.018 since the value of 'r' is greater than 6P.Er. which mean the relationship between deposit and loan and advances is significant.

In the case of SCBNL the co-efficient of correlation between deposit (independent variables) and loan and advances (dependent variable) is 0.92 which indicates positive co-relation between two variables. Similarly, the value of coefficient of determination (R<sup>2</sup>) is to be found 0.85, which shows that 85% in the dependent variable has been explained by the independent variable. Moreover considering the 6 P.Er. i.e. 0.27 since the value of 'r' is greater than 6P.Er. which mean the relationship between deposit and loan and advances is significant.

In conclusion from the above analysis of NABIL, NIBL and SCBNL there is a positive relationship between deposits and loan and advances.

#### **(ii) Correlation Coefficient between Deposit and Investment**

Co-efficient of correlation between deposit and total investment measures the degree of relationship between these two variables. The purpose of calculating this analysis is to find out whether deposit is significantly used as investment or not. Here, deposit is independent variable (x) and total investment is dependent variable (y). For detail see appendix-O

**Table 4.19**  
**Correlation Coefficient between Deposit and Investment**

Name of Banks	Base of Evaluation			
	R	R <sup>2</sup>	P.Er.	6P.Er.
NABIL	0.965	0.9312	0.0207	0.1242
NIBL	0.927	0.8593	0.0424	0.2544
SCBNL	0.877	0.769	0.0697	0.4182

(Source: Appendix O)

From the table in case of NABIL it is found that coefficient of correlation between deposit (independent) and total investment (dependent) value of 'r' is 0.965, which shows the positive relationship between these two variables. Moreover, when we consider the value of determination 'R<sup>2</sup>' it is 0.9312 which indicates that 93.12% of the variation in the dependent variable is explained by the independent variable. When analyze the value of 'r' and comparing with 6.P.Er we can find that r is much greater than value 6P.Er.i.e 0.965 > 0.1242 that reveals there is significant relationship between deposit and total investment.

The coefficient of correlation between deposit and total investment in case of NIBL is found to be 0.927, which shows the positive relation between these two variables. If we again consider the value of coefficient of determination (R<sup>2</sup>) it is 0.8593 which means that 85.93% in the dependent variable is explained by the independent variable. When analyze the value of 'r' and comparing with 6.P.Er we can find that r is much greater than value 6 P.Er.i.e.0.927 > 0.2544 that reveals there is significant relationship between deposit investments.

Similarly, the coefficient of correlation between deposit and total investment in case of SCBNL is found to be 0.877, which shows the positive relation between these two variables. If we again consider the value of coefficient of determination (R<sup>2</sup>) it is 0.769 which means that 76.91% in the dependent variable is explained by the independent variable. When analyze the value of 'r' and comparing with 6.P.Er we can find that r is much greater than value 6 P.Er.i.e.0.877 > 0.4182 that reveals there is significant relationship between deposit investments

In conclusion, NABIL, NIBL and SCBNL have the positive relationship between deposit and total investment. The relationship is significant and the value of  $R^2$  shows high percent in the dependent variables, which has been explained by the independent variable. While considering P.Er. The three banks are higher than six times probable error. They have significant relation between these two variables.

#### 4.2.2 Trend Analysis

Trend Analysis is known as time series analysis. This topic analyzes the trend of total deposits, loan and advances, total investment and net profit and its projection for the next five years. The basis of past performance and records available. The projections are based on following assumptions.

- ) The bank will run in this present position.
- ) Other things remain constant.
- ) The economy will remain in the present stage.
- ) Nepal Rastra Bank will not change its guidelines relating to commercial banks.

#### Trend value of Total Investment

Under this topic, the trend value of total investment for five years from 2003/04-2007/08 has been calculated and forecast for next five years from 2008/09 to 2012/13. Total investment includes investment on government securities, investment on share and debenture of other companies. The following table shows the trend value of total investment for ten years from 2003/04 to 2012/13 of NABIL, NIBL and SCBNL.

**Table 4.20**

#### **Trend value of Total Investment of NABIL, NIBL and SCBNL**

FY	Trend value of NABIL	Trend value of NIBL	Trend value of SCBNL
2003/04	4456215	3636935	27950762
2004/05	5744787	4496392	20112028
2005/06	7033359	5355849	12273294
2006/07	8321931	6215306	4434560
2007/08	9610503	7074763	3404174

2008/09	10899075	7934220	-11242908
2009/10	12187647	8793677	-19081642
2010/11	13476219	9653134	-26920376
2011/12	14764791	10512591	-34759110
2012/13	16053363	11372048	-42597844

(Source Appendix P)

From the shown comparative table, it is found that the trend value of total investment of NABIL and NIBL are in increasing trend and SCBNL is in decreasing trend. Total investment of NABIL is higher in comparison to NIBL and SCBNL.

In conclusion, we can say that all the commercial banks have following the policy of maximizing the investment. Calculation of trend of investment is shown in appendix P.

### 4.3 Major Findings of the Study

In this research data mainly secondary data are used and the analysis is computed with the help of different financial and statistical tools. In financial tools ratio analysis has been used and on statistical tool standard deviation, co-efficient of variation (C.V.), correlation has been used. This chapter focuses on the major findings from the comparative analysis of NABIL, NIBL and SCBNL from the year 2003/04 to 2007/08.

The major findings of the financial and statistical analysis are presented below with serially:

#### Liquidity Ratios

The liquidity positions of NABIL, NIBL and SCBNL reveals that:

- ) Average current ratio of NABIL, NIBL and SCBNL are 0.97%, 0.94% and 0.88% respectively.
- ) The mean ratio of current ratio of NABIL is higher than that of other banks. It means NABIL has maintained the higher liquidity and lower risks in compared to other banks. Consistency of maintaining liquidity position of NABIL is more than that of other banks.

- J The mean ratio of cash and bank balance to total deposits of NIBL is higher than NABIL and SCBNL. It states that the liquidity position of NIBL is higher in this regard. Besides, variability of ratio of NIBL is consistent that that of other two compared banks.
- J The mean ratio of cash and bank balance to current assets ratio of NIBL is higher than NABIL and SCBNL. It shows that NIBL's ratios are less consistent than that of NABIL and SCBNL.
- J The mean ratio of investment in government securities to current assets ratio of SCBNL is higher than that of NABIL and NIBL which shows that SCBNL has good investment in government securities than other banks.
- J The average ratio of loan and advances to current assets ratio of NIBL is higher than NABIL and SCBNL. It shows that NIBL's ratios are more variable than other two banks.

#### **Assets Structure Ratio**

- J The mean ratio of loan and advances to total deposit ratio of NIBL's ratio is higher than NABIL and SCBNL. It seems that NIBL's ratio is more variable than other two banks.
- J Incase of loan and advances to total working fund ratio, NIBL was found with higher mean ratio than that of NABIL and SCBNL. The ratio of SCBNL is less weak condition on loan and advances to total working fund ratio than NABIL and NIBL.

On the other hand, the ratio of NIBL is less consistent than that of Nabil and SCBNL.

- J The mean ratio of total investment to total deposit ratio of SCBNL is higher than NABIL and NIBL. It shows that SCBNL has mobilized its collected deposits on investment with better than NABIL and NIBL and can say SCBNL's ratio is more variable than other banks.
- J The average ratio of investment in government securities to total working fund ratio of SCBNL is higher than NABIL and NIBL. It seems SCBNL is more success to invest its fund in government securities than NABIL and NIBL.

- )] The C.V. of NIBL is lowest than NABIL and SCBNL. So NIBL is more stable and consistent than other banks
- )] The mean ratio of Investment on share and debenture to total working fund ratio of NABIL is higher than NIBL and SCBNL. It indicates the position of NABIL is higher in investing its total working fund to share and debentures. Consequently, the variability of the ratio of NIBL is higher than that of other compared banks.

### **Profitability Ratio**

- )] The mean ratio of return on total asset of SCBNL is higher than NABIL and NIBL. i.e  $2.68\% > 2.60\% \ \& \ 1.57\%$ . It seems that SCBNL is highly efficiency to earn profit and return.
- )] The C.V. of NABIL is less than NIBL and SCBNL. NABIL is more consistent and stable than other banks.
- )] The mean ratio of return on loan and advances of SCBNL is higher than NABIL and NIBL i.e.  $6.87\% > 4.64\% \ \& \ 2.53\%$ . which show that SCBNL is highly efficiency to earn return on loan and advances.
- )] The C.V of SCBNL is lower than NABIL and NIBL. So SCBNL is more consistency and stable than other two banks.
- )] The mean ratio of total interest earned to total outside assets ratio of NABIL is higher than NIBL and SCBNL i.e  $5.6\% > 4.33\% \ \& \ 5.23\%$ . It shows that NABIL is able to earn interest more than other banks.
- )] The C.V of NIBL is  $4.26\%$  which is less than other banks .it shows that NIBL is more consistency and stable than NABIL and SCBNL.

### **Growth Ratio**

- )] Growth ratio of total investment of NABIL is higher than NIBL and SCBNL.
- )] Growth ratio of total deposit of NIBL is higher than NABIL and SCBNL.
- )] Growth ratio of loan and advances of NIBL is higher than NABIL and SCBNL.
- )] Growth ratio of total profit of NIBL is higher than NABIL and SCBNL.

### **Co-efficient of Correlation Analysis**

- J Correlation coefficient between deposit and loan and advances of all the banks shows positive relationship between these two variables. NIBL has the highest correlation in deposit and loan and advance. The value of 'r' of NIBL is higher than SCBNL and NIBL. It indicates that NIBL's good position on mobilizing deposit as loan and advances in comparison to NABIL and SCBNL.
- J The value of 'r' of these banks are greater than the 6 times of P.Er, it shows the significant relationship between deposit and loan & advances of these banks.
- J The increase and decrease of total deposit of the bank strong affects the volume of loan and advances.
- J Correlation coefficient between deposit and total investment of three banks has positive relationship. The value of 'r' of NABIL is higher than that of NIBL and SCBNL. The value of 'r' of these banks are greater than the 6 times of P.Er, it shows the significant relationship between deposit and total investment of these banks.

### **Trend Analysis of Investment**

The total investment of NABIL and NIBL are an increasing trend and SCBNL is decreasing trend and projected investment is negative value. The total investment of NABIL, NIBL and SCBNL are projected Rs. 16053363, 11372048, -42597844 thousands respectively at the end of 2012/13. NABIL seems to have a much focused policy with regards to total investment than NIBL and SCBNL.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter highlights some selected actionable conclusions and recommendations on the basis of the major findings of the study derived from the analysis of NABIL, NIBL and SCBNL. In order to carry out this study mainly secondary data are used. The analysis of the data is carried out with the help of various financial and statistical tools. They are liquidity ratio, profitability ratio, asset structure ratio, growth ratio, coefficient of correlation, trend analysis.

#### **5.1 Summary**

The development of every country is always measured by its economic indices. Therefore, every country has given emphasis on upliftment of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

We know that deposits are the obligations of the commercial banks. So the bank must allocate the funds in different sectors.

Fund mobilization greatly depends on the saving behavior of the people. The amount of saving of a typical household in Nepal is small because of the people have limited opportunities for investment. They prefer to spend saving on commodities rather than on financial assets. This restricts the process of financial intermediation, which might otherwise bring benefits such as reduction of investment risk and increase in liquidity.

Fund mobilization depends on development of the capital market also. It provides and allocates funds to firms with profitable investment opportunities and offers an avenue of liquidity for individuals to invest current income or borrow against future income.

They are providing a foundation to develop country through economic way. Main objectives of these banks are to collect deposit from public in small or large scale and to mobilize the collected deposit in different sectors. In this study, three banks are chosen for research about their fund mobilizing policy with comparative. Especially NABIL, NIBL and SCBNL taking five years data from the year ended 07/15/2004 to 07/15/2008. Above findings are drawn by applying various related financial and statistics tools. In this study, liquidity ratio, assets structure ratio, profitability ratio and statistical tools like percentage, mean, standard deviation, coefficient of variation and coefficient of correlation have been employed for the analysis and interpretation of the data. The data, which were used in the dissertation, are secondary in nature. They were obtained from annual report of the banks, financial statement, journals, bulletins etc.

Liquidity position of NABIL, NIBL and SCBNL were found not satisfactory. In cash and bank balance to total deposit ratio NIBL has maintained the higher ratio than SCBNL and Nabil. It states that the liquidity position of NIBL is higher in this regard.

In the analysis of cash and bank balance to current assets ratio NIBL has better position on cash and bank balance to current assets ratio than NABIL and SCBNL. So it must improve to ratio to obtain more gain from cash and bank balance.

In the analysis of investment on government securities to current assets ratio SCBNL has maintained highest mean ratio than NABIL and NIBL. It shows that SCBNL has invest its more fund on government securities than other banks.

In the study of loan and advances to current assets ratio of SCBNL has maintain lowest ratio than NABIL and NIBL. So SCBNL has weak condition and it must improve the ratio to obtain more gain from loan and advances. At last we can conclude that NIBL has maintained moderate investment policy in liquidity position.

From The analysis of assets management ratio also shows that the total investment to total deposit, investment on govt. securities to working fund and investment on shares

and debentures to total working funds ratio are highest in SCBNL but SCBNL's capacity to mobilize its loan and advances to total working fund and loan and advances to total deposit is not so good than NABIL and NIBL. Finally it can be concluded that asset management position of SCBNL is less effective than NABIL and NIBL.

From this analysis it can be concluded that the profitability position of SCBNL is better than NABIL and NIBL. It has highest return on loan and advances ratio, return on total assets ratio. Total interest earned to total outside asset ratio of Nabil is higher than NIBL and SCBNL. SCBNL is strong position in the earning capacity by utilizing available resources than Nabil and NIBL. So it is significant and consistently more stables to earn capacity maintained and net profit generated than other banks.

SCBNL has maintained better position in comparison to NABIL and NIBL.

From the analysis of growth ratio, NIBL has higher growth rate on deposits, loan & advances, and net profit than NABIL and NIBL. And growth ratio of total investment of NABIL is highest than other banks.

Therefore NIBL has successfully collected and utilized fund amount of its customer than NABIL.

From this study we can be concluded that NABIL, NIBL and SCBNL there is positive relationship between deposit & loan and advance. The relation between deposit & loan and advances is significant. These three banks are successful to mobilize their deposit in proper way as loan and advance in the same way, relation between deposit and total investment is positive correlated and also significant.

From the study it can be concluded that the trend analysis of total investment of NABIL, NIBL and SCBNL is in increasing trend.

Fund mobilization activities of the country also depend on the development of financial institution, as financial institution is a key for investment. Financial institution plays a very important role to develop the nation by collecting and mobilizing money. Commercial banks are major financial institutions which occupy quite an important place in the frame work of every country's economy because they provide capital for the development of the industries, trade and business and other resources deficit sectors by investing the saving collected as deposits.

Banks which serve as a repositories of the cash resources of the public and as purveyors of finance for trade and industry play a vital role in the economic and financial life of a country. Unlike other joint stock companies, banks generally, obtain a very large proportion of their working capital from the depositors rather than from the share holder. Therefore it should wisely and carefully use its collected fund. The investment policy should be carefully analyzed. Commercial banks have to pay due consideration while formulating fund mobilization policy regarding loan and investment. Mobilization policy should ensure minimize risk and maximize profit (return) from lending. The loan provided by bank is guided by several principles such as length of time, their purpose, profitability, safety etc commercial banks also have to consider government and NRB's instructions and national and bank's own interest as well.

## **5.2 Conclusion**

Economic liberalization policy of the government has encouraged the establishment and growth of commercial banks in the country within short span of time. In a situation when the existing financial institutions, especially government's commercial banks were unable to supply credit timely and carry capital market activities, private joint venture commercial banks have contributed a lot.

The overall performance of joint venture commercial banks is satisfactory and Nepal Rastra Bank has to play more active role to enhance the operation. The analysis of liquidity position of sample joint venture commercial banks (NABIL, SCBNL and NIBL) have not satisfactory. NIBL has higher liquidity position than that of other two banks.

The lending activities of SCBNL has lower position than that of Nabil and NIBL but the investment and profitability position is higher than that of these two banks. The coefficient of correlation of Deposit and loan and advances and Deposit and Loan and advances. NABIL has better position on total investment to total deposit and poor position in loan and advances to total deposit. Similarly, NIBL has better position in loan and advances to total deposit but SCBNL has poor position. But the correlation between variable are positive and they are significant because the value of  $r$  is higher than value of 6P.Er. Initially the major part of these banks was consisting of business and industrial loan; this is the indication of investment on productive sector. Now a days, these banks are slowly turn on hire purchase and housing financing.

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

The commercial banks have to prove that they can really contribute to the national economy, are efficient and viable agencies for mobilization of saving and its channelisation into productive sectors are professionally managed and competent enough to ensure adequate rate of returns on investment and are strategically well planned to be competitive with other agencies and are trust worthy.

### **5.3 Recommendations**

On the basis of analysis and findings of the study, following recommendation can be advanced to overcome weakness, inefficiency and to improve present fund mobilization policy of NABIL, NIBL and SCBNL.

The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply as demand position of loan and advances as well as saving, investment situations, central bank is directive, the lending policies, capability of management, strategic planning and funds flow situations. As NABIL and SCBNL have maintained the ratios of cash and bank balance to total deposit and current assets considerably lower than that of NIBL. Both NABIL and NIBL is recommended to increased cash and bank balance to meet current obligations and loan demand.

To get the success in competitive banking environment, depositor's money must be utilized as loan and advances. Negligence in administering this asset could be the main cause of a liquidity crisis in the bank and one of the main reasons of bank failure. It has been found from the study that NIBL has greater ratios at all, because its large portion of fund invested as loan and advances and negligence to invest on other sectors. NABIL and SCBNL have not properly used their existing fund as loan and advances. To overcome this situation, Nabil and SCBNL are strongly recommended to follow liberal lending policy.

As a bank of private sector, commercial banks are not keeping their eyes closed from the profit motive. They should be come full in increasing profit in a real sense to maintain the confidence of shareholder, depositors and its all customers. NIBL's profitability position is worse than that of other two banks. So, NIBL is strongly recommended to utilize risky assets and shareholders' fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheaper fund being more profitable.

All joint venture banks are found least participated in the aspect of boosting up foreign investment into the kingdom. So, all these banks are strongly recommended to establish the participation as a main objective of the bank, which can be achieved by using its wide, modern and strong means of communication.

Besides giving priority of investing of government securities, SCBNL is recommended to invest its fund in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies. This also helps in the maintenance of a sound portfolio of the banks.

Though the government securities issued by a government are considered to be free of risk of default such securities yield the lowest interest rates of a particular maturity due to low risk feature. NIBL has maintained lowest at all. So it is recommended to NIBL that if it has idle funds it should be invest them in government securities. It should keep in mind this proverb, “something is better than nothing.”

Most of the joint venture banks have focused their banking services especially to big clients such as multinational companies, large-scale industries, manufactures and exporters of garments and carpets. The minimum level of bank balance and the amount needed to open an account in there banks are very high amount. So, small depositors are very far from enjoying the banking facilities provided by such joint venture banks. So, all three banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investors’ funds.

The project oriented approach has to be encouraged in lending business of the banks, in which, security is not necessary, risk is high but the project is important from the point of view of national economy. The project should be allowed to make them capable to generate their own funds and to repay loans timely. So, it is recommended to all three banks should followed project oriented approach for their efficient performances. Because the chance of loan loss can be minimize by the project-oriented approach.

One of the main objectives to operate joint venture banks of Nepal is to boost foreign investments in to the kingdom. However, these three banks don't seem to be successful in this aspect. Therefore, all three banks are recommended to activate for increasing foreign investment in Nepal by means of their wide international banking networks.

Though joint venture banks have played an important role in the economic development of the country, they are not efficiently playing the role of a merchant bank. So, the three banks are suggested to play the role of financial intermediary and merchant banking like underwriting of securities brokers, development of capital markets and supportive role to the security exchange center.

Banks do not provide loans without collateral. It is recommended that proper assessment and viability of the project should also be considered apart from the traditional concept of collateral based lending. If there is good proposal and all other factors of credit analysis is fulfilled then collateral should not be the only deciding factor for advancing the loans besides following the proper guidelines and policy of credit appraisal.

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and its marketing function, as it is an effective tool of attracting and retaining customers. For this purpose, the banks should develop an "Innovative approach to Bank Marketing." and formulate new strategies of serving customers in a more convenient and satisfactory way.

There is communication gap between the banks is lacking even though they are on the same business. Banks need to develop a mechanism for inter bank transparency, a committee which will help the better understanding of the various types of risk, disseminate information regarding bad debts and fraud cases, minimize customer misleads and practice fair competition.

At last, it is quite meaningful to mention that the term "privatization" has become very popular for improving the performance and efficiency of public enterprises in the global

perspective. Nepal Government has also initiated to privatize the public enterprises. Now a concept to privatize Nepal Bank Limited and Rastriya Banijya Bank is also appeared. But it is the well-known fact that these both commercial banks are the oldest and the largest commercial banks having hundreds of branches throughout the kingdom.

In this context, for the speedy development of the country, Government of Nepal as well as all the JVBs are suggested to follow decentralization policy in order to extent the modern and computerized banking facilities towards the optimal areas and within the reach of lower level people of the kingdom.

SCBNL is strong position in the earning capacity by utilizing available resources than Nabil and NIBL. So it is significant and consistently more stables to earn capacity maintained and not profit generated than other banks.

## BIBLIOGRAPHY

### Books

- Ahuja, B.N. (1992). *Dictionary of Management. (2<sup>nd</sup> Edition)*. New Delhi: Academic Publishers.
- American Institute of Banking (1972). *Principal of Bank Operation*. U.S.A: Nova Press.
- Baidhya, S. (1997). *Banking Management*. Kathmandu: Monitor Nepal.
- Bajaracarya, B.C. (2056). *Business Statistics and Mathematics*. Kathmandu: M.K. Publisher and Distributors.
- Bhalla, V.K. (1993). *Investment Management Securities Analysis and Portfolio Management. (5<sup>th</sup> Edition)*. New Delhi: S. Chand & Co. Ltd.
- Bhatrai, R. (2005). *Investment Theory and Practice*. Kathmandu: Buddha Academic Publisher and Distributors Pvt. Ltd.
- Commercial Bank Act 2031 B.S.
- Gupta, D.P. (1984). *The Banking System, Its Role in Export Development*. Geneva: The Financing of Export from Developing Countries, International Trade Center, UNCTAD/GATT.
- Joshi, P.R. (2002). *Research Methodology. (2<sup>nd</sup> edition)*. Kathmandu: Buddha Academic Publisher and Distributors Pvt. Ltd.
- Joshi, S. (2057). *Managerial Economic*. Kathmandu: Taleju Prakashan.
- Nepal Stock Exchange Ltd. (1997/98). *Financial Statements of Listed Companies*. Kathmandu, Vol. IV.
- Pandey, I.M. (1993). *Financial Management. (6<sup>th</sup> Revised Edition)*. New Delhi: Vikas Publishing House Pvt. Ltd.
- Pandey, I.M. (1999). *Financial Management. (8<sup>th</sup> Edition)*. New Delhi: Vikash Publishing House Pvt. Ltd.
- Sharpe, W.F, Alexander, G.J., & Jeffery, B.V. (2000). *Investment. (4<sup>th</sup> Edition)* New Delhi: Prentice Hall of India Pvt. Ltd.
- Shrestha, M.K. (1990). *Commercial Banks Comparative Performance Evaluation*. Kosh Year 16, Kathmandu: Karmachari Sanchaya Kosh Publications.

## **Thesis**

- Bhurtel, S. (2009). *A study on Investment Analysis of Commercial Banks In Nepal*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, T.U.
- Kaini, B.K. (1997). *A Comparative Study of Financial Performance of Nepal Arab Bank and Nepal Grindlays Bank Ltd.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, T.U.
- Laudari, S.R. (2001). *A Study on Investment Policy of Nepal Indosuez Bank Limited in Comparison to Nepal SBI Bank Ltd.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, T.U.
- Ojha, K. (1997). *A Study on Priority Sector Investment in Commercial Bank (with Special Reference to Rastriya Banijya Bank.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, T.U.
- Shakya, Y. (2009). *A study on Investment Policy of Nepal Investment Bank Ltd. and NABIL Bank Ltd.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, T.U.
- Thapa, S. (2001). *A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and Other Joint Venture Banks.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, T.U.

## **Websites:**

www.nabilbank.com

www.nepalstock.com

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

www.nrb.org.np

www.scbnl.com

# APPENDICES

## Appendix A

### Current Ratio

#### NABIL

F/Y	Current Assets	Current Liabilities	Ratio
2003/04	13751838	14900923	0.92
2004/05	14427918	15167126	0.95
2005/06	17589147	20019495	0.88
2006/07	22604380	24034722	0.94
2007/08	40575209	32738518	1.24

#### NIBL

F/Y	Current Assets	Current Liabilities	Ratio
2003/04	10668148	11652528	0.92
2004/05	13555037	14386010	0.94
2005/06	17705029	19127563	0.93
2006/07	23347312	24637539	0.95
2007/08	33906594	34750112	0.98

#### SCBNL

F/Y	Current Assets	Current Liabilities	Ratio
2003/04	18883842	21718525	0.87
2004/05	18994743	19941414	0.95
2005/06	20833785	23710700	0.88
2006/07	21392747	25132141	0.85
2007/08	26103993	30459151	0.86

## Appendix B

### Cash and Bank Balance to Total Deposit Ratio

#### NABIL

F/Y	Cash and Bank Balance	Total deposit	Ratio
2003/04	970486	14119033	6.90
2004/05	559381	14586609	3.83
2005/06	630239	19347399	3.26
2006/07	1399825	23342285	6.00
2007/08	2671141	31915047	8.37

#### NIBL

F/Y	Cash and Bank Balance	Total Deposit	Ratio
2003/04	1226923	11524679	10.65
2004/05	1340481	14254574	9.40
2005/06	2336521	18927306	12.34
2006/07	2441514	24488856	9.97
2007/08	3754942	34451726	10.90

#### SCBNL

F/Y	Cash and Bank Balance	Total Deposit	Ratio
2003/04	2023164	21161442	9.56
2004/05	1111117	19335095	5.75
2005/06	1276241	23061032	5.53
2006/07	2021022	24647021	8.20
2007/08	2050243	29743999	6.90

## Appendix C

### Cash and Bank Balance to Current Assets Ratio

#### NABIL

F/Y	Cash and Bank Balance	Current Assets	Ratio
2003/04	970486	13751838	7.10
2004/05	559381	14427918	3.90
2005/06	630239	17589147	3.60
2006/07	1399825	22604380	6.20
2007/08	2671141	40575209	6.60

#### NIBL

F/Y	Cash and Bank Balance	Current Assets	Ratio
2003/04	1226923	10668148	11.50
2004/05	1340481	13555037	9.90
2005/06	2336521	17705029	13.20
2006/07	2441514	23347312	10.50
2007/08	3754942	33906594	11.10

#### SCBNL

F/Y	Cash and Bank Balance	Current Assets	Ratio
2003/04	2023164	18883842	10.71
2004/05	1111117	18994743	5.85
2005/06	1276241	20833785	6.13
2006/07	2021022	21392747	9.45
2007/08	2050243	26103993	7.85

## Appendix D

### Investment on Government Securities to Current Assets Ratio

#### NABIL

F/Y	Investment on Government Securities	Current Assets	Ratio
2003/04	3672626	13751838	26.70
2004/05	2413939	14427918	16.73
2005/06	2301463	17589147	13.10
2006/07	4808348	22604380	21.30
2007/08	4646883	40575209	11.45

#### NIBL

F/Y	Investment on Government Securities	Current Assets	Ratio
2003/04	2001100	10668148	18.75
2004/05	1948500	13555037	14.37
2005/06	2522300	17705029	14.25
2006/07	3256400	23347312	13.95
2007/08	3155000	33906594	9.30

#### SCBNL

F/Y	Investment on Government Securities	Current Assets	Ratio
2003/04	7948217	18883842	42.10
2004/05	7203066	18994743	37.92
2005/06	8644856	20833785	41.50
2006/07	7107937	21392747	33.23
2007/08	8137615	26103993	31.17

**Appendix E**  
**Loan and Advances to Current Assets Ratio**

NABIL

F/Y	Loan and Advances	Current Assets	Ratio
2003/04	8189993	13751838	59.55
2004/05	10586170	14427918	73.40
2005/06	12922543	17589147	73.50
2006/07	15545779	22604380	68.77
2007/08	21365053	40575209	52.65

NIBL

F/Y	Loan and Advances	Current Assets	Ratio
2003/04	7130125	10668148	66.84
2004/05	10126056	13555037	74.70
2005/06	12776208	17705029	72.16
2006/07	17286427	23347312	74.0
2007/08	26996652	33906594	79.62

SCBNL

FY	Loan and Advances	Current Assets	Ratio
2003/04	6693862	18883842	35.45
2004/05	8420869	18994743	44.33
2005/06	8935418	20833785	42.90
2006/07	10502637	21392747	49.10
2007/08	13718597	26103993	52.55

## Appendix F

### Loan and Advances to Total Deposit Ratio

#### NABIL

FY	Loan and Advances	Total Deposit	Ratio
2003/04	8189993	14119033	58.01
2004/05	10586170	14586609	72.57
2005/06	12922543	19347399	66.80
2006/07	15545779	23342285	66.60
2007/08	21365053	31915047	66.94

#### NIBL

FY	Loan and Advances	Total Deposit	Ratio
2003/04	7130125	11524679	61.87
2004/05	10126056	14254574	71.04
2005/06	12776208	18927306	67.50
2006/07	17286427	24488856	70.59
2007/08	26996652	34451726	78.36

#### SCBNL

FY	Loan and Advances	Total Deposit	Ratio
2003/04	6693862	21161442	31.63
2004/05	8420869	19335095	43.55
2005/06	8935418	23061032	38.75
2006/07	10502637	24647021	42.61
2007/08	13718597	29743999	46.12

## Appendix G

### Loan and Advances to Total Working Fund Ratio

#### NABIL

FY	Loan and Advances	Total Working Fund	Ratio
2003/04	8189993	16745486	48.91
2004/05	10586170	17186330	61.60
2005/06	12922543	22329971	57.87
2006/07	15545779	27253393	57.04
2007/08	21365053	37132759	57.54

#### NIBL

FY	Loan and Advances	Total Working fund	Ratio
2003/04	7130125	13255496	53.79
2004/05	10126056	16274064	62.22
2005/06	12776208	21330137	59.90
2006/07	17286427	27590845	62.65
2007/08	26996652	38873306	69.45

#### SCBNL

FY	Loan and Advances	Total Working Fund	Ratio
2003/04	6693862	23642059	28.31
2004/05	8420869	22171240	37.98
2005/06	8935418	25776332	34.67
2006/07	10502637	28569689	36.76
2007/08	13718597	33335788	41.15

**Appendix H**  
**Total Investment on Total Deposit Ratio**

NABIL

FY	Total Investment	Total Deposit	Ratio
2003/04	5835948	14119033	41.33
2004/05	4267233	14586609	29.25
2005/06	6178533	19347399	31.93
2006/07	8945311	23342285	38.32
2007/08	9939771	31915047	31.14

NIBL

FY	Total Investment	Total Deposit	Ratio
2003/04	3862483	11524679	33.51
2004/05	3934189	14254574	27.6
2005/06	5602869	18927306	29.60
2006/07	6505680	24488855	26.57
2007/08	6874024	34451726	19.95

SCBNL

FY	Total Investment	Total Deposit	Ratio
2003/04	11360328	21161442	53.68
2004/05	9702553	19335095	50.18
2005/06	12847536	23061032	55.71
2006/07	13553233	24647021	54.99
2007/08	13902819	29743999	46.74

## Appendix I

### Investment on Government Securities to Total Working Fund

#### NABIL

FY	Investment on Government Securities	Total Working Fund	Ratio
2003/04	3672626	16745486	21.93
2004/05	2413939	17186330	14.05
2005/06	2301463	22329971	10.31
2006/07	4808349	27253393	17.64
2007/08	4646883	37132759	12.51

#### NIBL

FY	Investment on Government Securities	Total Working Fund	Ratio
2003/04	2001100	13255496	15.10
2004/05	1948500	16274064	11.97
2005/06	2522300	21330137	11.80
2006/07	3256400	27590845	11.80
2007/08	3155000	38873306	8.12

#### SCBNL

FY	Investment on Government Securities	Total Working Fund	Ratio
2003/04	7948217	13255496	59.96
2004/05	7203066	16274064	44.26
2005/06	8644856	21330137	40.53
2006/07	7107937	27590845	25.76
2007/08	8137615	38873306	20.93

## Appendix J

### Investment on Share and Debenture to Total Working Fund Ratio

#### NABIL

FY	Investment on Share and Debenture	Total Working Fund	Ratio
2003/04	133445	16745486	0.79
2004/05	440282	17186330	2.56
2005/06	104192	22329971	0.47
2006/07	286958	27253393	1.05
2007/08	323236	37132759	0.87

#### NIBL

FY	Investment on Share and Debenture	Total Working Fund	Ratio
2003/04	13895	13255496	0.10
2004/05	17738	16274064	0.11
2005/06	17738	21330137	0.08
2006/07	35253	27590845	0.13
2007/08	59946	38873306	0.15

#### SCBNL

FY	Investment on Share and Debenture (000)	Total Working Fund	Ratio
2003/04	11195	13255496	0.08
2004/05	13348	16274064	0.08
2005/06	15343	21330137	0.07
2006/07	44943	27590845	0.16
2007/08	114536	38873306	0.29

**Appendix K**  
**Return on Total Assets Ratio**

NABIL

FY	Net Profit (Loss)	Total Assets	Ratio
2003/04	455311	16745486	2.72
2004/05	518637	17186330	3.0
2005/06	635264	22329971	2.84
2006/07	673959	27253393	2.47
2007/08	746468	37132759	2.0

NIBL

FY	Net Profit (Loss)	Total Assets	Ratio
2003/04	152671	13255496	1.15
2004/05	232127	16274064	1.43
2005/06	350536	21330138	1.64
2006/07	501399	27590845	1.82
2007/08	696732	38873306	1.80

SCBNL

FY	Net Profit (Loss)	Total Assets	Ratio
2003/04	537800	23642059	3.54
2004/05	539204	22171240	2.43
2005/06	658755	25776332	2.56
2006/07	691668	28596689	2.42
2007/08	818921	33335788	2.46

**Appendix L**  
**Return on Loan and Advance Ratio**

NABIL

FY	Net Profit (Loss)	Loan and Advance	Ratio
2003/04	455311	8189993	5.56
2004/05	518637	10586170	4.90
2005/06	635264	12922543	4.92
2006/07	673959	15545779	4.33
2007/08	746468	21365053	3.50

NIBL

FY	Net Profit (Loss)	Loan and Advance	Ratio
2003/04	152671	7130125	2.14
2004/05	232127	10126056	2.30
2005/06	350536	12776208	2.74
2006/07	501399	17286428	2.9
2007/08	696732	26996652	2.58

SCBNL

FY	Net Profit (Loss)	Loan and Advance	Ratio
2003/04	537800	6693862	8.03
2004/05	539204	8420869	6.40
2005/06	658755	8935418	7.37
2006/07	691668	10502637	6.59
2007/08	818921	13718597	5.96

## Appendix M

### Total Interest Earned to Total Outside Assets Ratio

#### NABIL

FY	Total Interest Earned	Total Outside Assets	Ratio
2003/04	718669	11996064	6.0
2004/05	825203	13440391	6.14
2005/06	952838	15328198	6.22
2006/07	1032049	20641086	5.0
2007/08	1220260	26335172	4.63

#### NIBL

FY	Total Interest Earned	Total Outside Assets	Ratio
2003/04	405201	9145120	4.43
2004/05	532251	12092294	4.40
2005/06	681795	15316246	4.45
2006/07	899457	20578081	4.37
2007/08	1202117	30211598	3.98

#### SCBNL

FY	Total Interest Earned	Total Outside Assets	Ratio
2003/04	766366	14653274	5.23
2004/05	804551	15637283	5.14
2005/06	886404	17595617	5.04
2006/07	998927	17655517	5.66
2007/08	1119465	21970748	5.1

## Appendix N

### Coefficient of correlation between Deposit and Loan and Advances

**NABIL**

(Rupees in millions)

FY	Deposits(X)	Loan & Advances (Y)	x = (X- 20662.07)	X <sup>2</sup>	y = (Y-13721.90)	y <sup>2</sup>	xy
2003/04	14119.03	8189.99	(6543.04)	42811372.44	(5531.91)	30602028.25	36195508.4
2004/05	14586.61	10586.17	(6075.46)	36911214.21	(3135.73)	9832802.63	19051123.7
2005/06	19347.39	12922.54	(1314.68)	1728383.50	(799.36)	638976.41	1050902.6
2006/07	23342.28	15545.77	2680.21	7183525.64	1823.87	3326501.77	4888354.6
2007/08	31915.04	21365.05	11252.97	1226629333.8	7643.15	58417741.92	86008137.6
	x = 103310.373	y = 68609.52		x <sup>2</sup> = 1315263829.59		y <sup>2</sup> = 102818050.98	x y= 147194026.9

Here N=5

Here N=5

$$x = \frac{\sum X}{N}$$

$$x = \frac{103310.373}{5}$$

$$x = 20662.07$$

$$y = \frac{\sum Y}{N}$$

$$y = \frac{68609.538}{5}$$

$$y = 13721.90$$

Here,

$$x y = 147194026.9$$

$$x^2 = 1315263829.59$$

$$y^2 = 102818050.98$$

Now ,

$$\text{Calculation of correlation coefficient (r)} = \frac{\sum xy}{\sum x^2 \sum y^2}$$

$$P.E. (r) X 0.6745 \left| \frac{f_i - r^2 A}{\sqrt{n}} \right|$$

### NIBL

(Rupees in million)

FY	Deposits(X)	Loan & Advances(Y)	X = (X- 20729.43)	X <sup>2</sup>	Y = (Y-14863.1)	y <sup>2</sup>	xy
2003/04	11524.68	7130.13	(9200.75)	84653800.56	(7732.97)	59798825.02	71149123.7
2004/05	14254.57	10126.1	(6474.86)	41923812.02	(4737)	22439169	30671411.8
2005/06	18927.31	12776.20	(1802.12)	3247636.49	(2086.9)	4355151.61	3760844.23
2006/07	24488.86	17286.43	3759.43	14133313.92	2423.33	5872528.29	9110339.5
2007/08	34451.73	26996.65	13722.3	188301517.3	12133.55	147223035.6	166500213.2
	x = 103647.15	y = 74315.51		x <sup>2</sup> = 332260080.29		y <sup>2</sup> = 239688709.52	xy = 281191932.43

$$X = \frac{103647.15}{5} = 20729.43$$

$$Y = \frac{74315.51}{5} = 14863.1$$

### SCBNL

(Rupees in millions)

FY	Deposits(X)	Loan & Advances (Y)	x = (X-23590)	x <sup>2</sup>	y = (Y-9654.28)	y <sup>2</sup>	xy
2003/04	21161.44	6693.86	(2428.56)	5897903.7	(2960.42)	8764086.6	7189557.6
2004/05	19335.09	8420.87	(4254.91)	18104259.11	(1233.41)	1521300.2	5248048.5
2005/06	23061.03	8935.42	(528.97)	279809.3	(718.86)	516759.7	380255.4
2006/07	24647.02	10502.64	1057.02	1117291.3	848.36	719714.7	896733.5
2007/08	29743.99	13718.59	6153.99	37871592.9	4064.31	16518615.8	25011723.1
	x = 117948.57	y = 48271.38		x <sup>2</sup> = 63270856.31		y <sup>2</sup> = 28040477	xy = 38726318.1

$$X = \frac{117948.57}{5} = 23590$$

$$Y = \frac{48271.38}{5} = 9654.28$$

## Appendix 0

### Correlation Coefficient between Total Deposit and Total Investment

#### NABIL

(Rupees in millions)

FY	Deposits(X)	Total Investment(Y)	x = (X-20662)	x <sup>2</sup>	y = (Y-7033.4)	y <sup>2</sup>	xy
2003/04	14119.03	5835.95	(6542.97)	42810456.4	(1197.45)	1433886.5	7834879.4
2004/05	14586.61	4267.23	(6075.4)	36910485.2	(2766.17)	7651696.5	16805589.2
2005/06	19347.39	6178.53	(1314.61)	1728199.5	(854.87)	730802.7	1123820.7
2006/07	23342.28	8945.31	2680.28	7183900.8	1911.91	3655399.8	7789885.4
2007/08	31915.04	9939.77	11253.04	126630909.2	2906.37	8446986.6	32705497.9
	x= 103310.373	y= 35166.79		x <sup>2</sup> = 215263951.1		y <sup>2</sup> =21918772.1	xy= 66259672.6

$$X = \frac{103310.373}{5} = 20662.0 \text{ and } Y = \frac{35166.79}{5} = 7033.4$$

#### NIBL

(Rupees in millions)

FY	Deposits(X)	Total Investment (Y)	x = (X-20729.4)	x <sup>2</sup>	y = (Y-5355.8)	y <sup>2</sup>	xy
2003/04	11524.68	3862.48	(9204.72)	84726870.28	(1493.32)	2230004.62	13745592.5
2004/05	14254.57	3934.18	(6474.83)	41923423.53	(1421.62)	2021003.42	9204747.8
2005/06	18927.31	5602.87	(1802.09)	3247528.37	247.07	61043.58	(445242.4)
2006/07	24488.86	6505.68	3759.46	14133539.5	1149.88	1322224.01	4322927.9
2007/08	34451.73	6874.02	13722.33	188302340.6	1518.22	2304991.9	20833515.8
	x =103647.15	y =26779.23		x <sup>2</sup> =332333702.28		y <sup>2</sup> =7939267.53	xy= 47661541.6

$$X = \frac{103647.15}{5} = 20729.4 \text{ and } Y = \frac{26779.23}{5} = 5355.8$$

**SCBNL**

FY	Deposits(X)	Total Investment(Y)	x = (X-23589.7)	X <sup>2</sup>	y = (Y-12273.3)	y <sup>2</sup>	xy
2003/04	21161.44	11360.33	(2428.26)	5896446.6	(912.97)	833514.22	2216928.53
2004/05	19335.09	9702.55	(4254.61)	18101706.25	(2570.75)	6608755.56	10937538.6
2005/06	23061.03	12847.54	(528.67)	279491.97	574.24	329751.57	(303583.46)
2006/07	24647.02	13553.23	1057.32	1117925.58	1279.93	1638220.8	1353295.6
2007/08	29743.99	13902.82	6154.29	37875285.4	1629.52	2655335.43	10028538.6
	x = 117948.57	y=61366.469		x <sup>2</sup> =63270855.8		y <sup>2</sup> = 12065577.58	xy = 24232717.87

$$X = \frac{117948.57}{5} = 23589.7 \text{ and } Y = \frac{61366.469}{5} = 12273.3$$

**Appendix P**  
**Trend Analysis of Investment**

NABIL

Year (t)	Total Investment (Y)	X (t-2005/06)	X <sup>2</sup>	XY	YC=a+bx
2003/04	5835948	-2	4	-11671896	4456215
2004/05	4267233	-1	1	-4267233	5744787
2005/06	6178533	0	0	0	7033359
2006/07	8945311	1	1	8945311	8321931
2007/08	9939771	2	4	19879542	9610503
	y=35166796	X=0	X <sup>2</sup> =10	XY=12885724	

Let the trend line be,

$$Y = a + bx \dots\dots\dots(i)$$

The two normal equation are,

$$y = na + b \ x \dots\dots\dots(ii)$$

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

$$\therefore \text{from (ii) } a = \frac{\sum y}{N} \dots\dots\dots(iv)$$

$$\text{From (iii) } b = \frac{\sum xy}{\sum x^2} \dots\dots\dots(v)$$

Here N = 5

$$a = \frac{\sum y}{N}$$

$$a = \frac{35166796}{5}$$

$$a = 7033359$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$b = \frac{12885724}{10}$$

$$b = 1288572$$

∴The straight line trend for investment is  $y = a + bx$

### Calculation of Investment Trend for Next Five Year

For year 2008/09,  $y = a + bx$        $y = 7033359 + 1288572 \times 3$

$X = 3$                                        $y = 10899075$

Other trend value have been calculated accordingly,

Rupees in '000'

Year (t)	$X = t - 2005/06$	Projected Investment $y = a + bx$
2008/09	3	10899075
2009/10	4	12187647
2010/11	5	13476219
2011/12	6	14764791
2012/13	7	16053363

**NIBL**

Year (t)	Total Investment (Y)	X (t- 2005/06)	X <sup>2</sup>	XY	YC=a+bx
2003/04	3862483	-2	4	-7724966	3636935
2004/05	3934189	-1	1	-3934189	4496392
2005/06	5602869	0	0	0	5355849
2006/07	6505680	1	1	6505680	6215306
2007/08	6874024	2	4	13748048	7074763
	y=26779245	X=0	X <sup>2</sup> =10	XY=8594573	

Let the trend line be,

$$Y = a + bx \dots\dots\dots(i)$$

The two normal equation are,

$$y = na + b \ x \dots\dots\dots(ii)$$

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

$$\therefore \text{from (ii) } a = \frac{\sum y}{N} \dots\dots\dots(iv)$$

$$\text{From (iii) } b = \frac{\sum xy}{\sum x^2} \dots\dots\dots(v)$$

Here N = 5

$$a = \frac{\sum y}{N} \qquad a = \frac{26779245}{5} \qquad a = 5355849$$

$$b = \frac{\sum xy}{\sum x^2} \qquad b = \frac{8594573}{10} \qquad b = 859457$$

∴ The straight line trend for investment is  $y = a + bx$

For year 2008/09,  $y = a + bx$       $y = 5355849 + 859457 \times 3$

$X = 3$       $y = 56136871$

Other trend value have been calculated accordingly,

Rupees in '000'

<b>Year (t)</b>	<b>X = t- 2005/06</b>	<b>Projected Investment y = a +bx</b>
2008/09	3	7934220
2009/10	4	8793677
2010/11	5	9653134
2011/12	6	10512591
2012/13	7	11372048

**SCBNL**

Year (t)	Total Investment (Y)	X (t- 2005/06)	X <sup>2</sup>	XY	YC=a+bx
2003/04	11360328	-2	4	-22720656	27950762
2004/05	9702553	-1	1	-97025553	20112028
2005/06	12847536	0	0	0	12273294
2006/07	13553233	1	1	13553233	4434560
2007/08	13902819	2	4	27805638	3404174
	y=61366469	X=0	X <sup>2</sup> =8	XY=-78387338	

Let the trend line be,

$$Y = a + bx \dots\dots\dots (i)$$

The two normal equations are,

$$y = na + b \ x \dots\dots\dots (ii)$$

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

$$\therefore \text{from (ii) } a = \frac{\sum y}{N} \dots\dots\dots (iv)$$

$$\text{From (iii) } b = \frac{\sum xy}{\sum x^2} \dots\dots\dots (v)$$

Here N = 5

$$a = \frac{\sum y}{N} \qquad a = \frac{61366469}{5} \qquad a = 12273294$$

$$b = \frac{\sum xy}{\sum x^2} \qquad b = \frac{78387338}{10} \qquad b = -7838734$$

∴ The straight line trend for investment is  $y = a + bx$

For year 2008/09 ,  $y = a + bx$        $y = 12273294 + (- 7838734) x 3$

$X = 3$                                        $y = -11242908$

Other trend value have been calculated accordingly,

Rupees in '000'

Year (t)	X = t- 2005/06	Projected Investment $y = a + bx$
2008/09	3	-11242908
2009/10	4	-19081642
2010/11	5	-26920376
2011/12	6	-34759110
2012/13	7	-42597844