

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Background of the study**

Overall national development of any country depends upon the economic development of that country and economic development largely depends upon the financial infrastructure of that country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being one of the least developed countries has been trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

The proper mobilization and utilization of domestic resources is one of the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is only possible when competitive and reliable banking services are reached and operated to every corner of the country. It has been well established that the economic activities of any country can hardly be carried without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development. The investment policy of financial institutions, especially bank has long term impact not only on their growth and sustainability but also on the economic development of the country. Successful formulation and effective implementation of banks and other financial institutions. Good investment policy has positive impact on economic development of the country vice-versa.

The initial step an investing policy involves is determining the investment objectives and the amount of one's invest able fund. Investment is always related with risks and returns. Making money alone cannot be an appropriate objective. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses.

Investment is a very risky job for purposeful, safe and profitable investment. Bank must follow sound investment policy. The fundamental principle of investment must be followed thoroughly for profitable investment. Investment policy should ensure maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market and it seems no profitable place to invest these days. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum risk, which ultimately leads the bank to the path of success to achieve its organizational objectives of shareholders' wealth maximization.

Commercial banks are major financial institutions. Which occupy quite an important place in the economy because through the deposits they collect they provide much needed capital for the development of industry, trade and business and other deficit sectors, thereby contributing to the economic growth of the nation.

Investment in the actual sense refers to the sacrifice of current dollars for future dollars (Sharpe, 1986, 9). Investment involves three attributes, i.e. Return, Risk & Time. The sacrifice takes place in the present and is certain. The reward comes later. And the magnitude of which is uncertain. In some cases the element of time predominates (for example, government bonds). In other case risk is more dominant (for example call option on common stock). In yet others. Both time and risk play a dominant role (for example share of common stock).

Investment is the use of money to earn profit. It can be said that investment is concerned with the proper management of the investor's wealth. Fund to be invested come from assets already owned, borrowed money and saving or foregone consumption. By foregoing today and investing the saving, investors expect to enhance their future consumption possibilities i.e. the fund is invested to increase wealth. Investors also seek to manage their

wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other possible harms.

Investment policy involves determining the investor's objectives and the amount of his or her investable wealth. It is not appropriate for an investor to say that his objective is to make a lot of money (Clarke, 1989, 10). what is appropriate for an investor in this situation is to state that the objective is to earn a profit while recognizing that there exist some chances of incurring large losses. Investment objectives should be stated in terms of both risk and return.

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in the bank, the bank may invest by lending the funds to various businesses. These firms in return may invest in new factories and equipment to increase their production and efficiency. In addition to borrowing from banks, most companies issues stock and bonds, which they sell to investors to raise capital needed for business expansion. Government also issues bonds to raise required funds to invest in various projects. Nepal Rastra bank on behalf of Nepal government issues bonds, treasury bills to finance the long term and short- term needs of the government. All such investment by individuals, business, government & government entities involve a present sacrifice of fund to get an expected future benefit.

The real talent of an investor primarily lies in selecting proper or suitable area for investment with low or moderate risk. Investment policy should ensure minimum risk and maximum profit from lending.

## **1.2 Statement of the problem**

Commercial banks have huge collection form depositors. Effective utilization of collected fund is possible only through sound investment policy. Most Nepalese commercial bank have not formulated their

investment policies in organized manner. They mainly rely upon the instructions and guidelines issued by NRB. They are unable to estimate the future; they hardly have any clear view towards investment policy. Furthermore, the implementation of policy is not much effective way. The main reason attributions to unsound investment policy are lack of proper analysis on financial risk, interest rate risk, liquidity risk, business risk etc. Joint venture banks have become a role model in the improvement of fund mobilizations.

The problem that still persists for a bank even today is to find a proper and viable project to ensure healthy profit. They have always feared high degree of risk and uncertainty owing to lack of profitable sectors for their investment. Still, some emerging and existing commercial banks are tempted to invest, without proper credit analysis and on personal guarantee. Some have even sanctioned loan to customers beyond customer's real requirement. The high liquidity position of banks has resulted in a decrease in investment in productive sectors.

Thus, the present study will make a modest attempt to analyze investment policy of two joint venture banks viz. NABIL and SCBNL. This study basically deals with the following issues of joint venture banks.

- ) Are there JVB's properly utilizing their available fund?
- ) Whether the fund mobilization and investment policy of JVB's is effective?
- ) Does their any relationship between investment and total deposits as well as loan & advances with net profit of JVB's?
- ) Whether the investment practice of JVB's are sound or not?

### **1.3 Objectives of the study**

Investment decision is one of the major decision functions of financial management. The main purpose of this study is to assess the investment

policy and strategies followed by NABIL and SCBNL. The specific objectives of this study are given bellow:

- To evaluate the liquidity, assets management, profitability, risk position, liquidity and growth ratios of the banks under study.
- To assess the relationship between total deposits and investment, loans & advances, interest earned, and net profit, net profit to outsidess assets and total working fund, loan and advances to interest paid & compare them.
- To analyze the trend of deposits, investment, net profit and loan and advances, for next five years of SCBNL and NABIL.
- To make appropriate recommendations/suggestions on the basis of major findings.

#### **1.4 Significance of the study**

Investment activity is the life blood of any financial institution, since only accumulating deposits has no meaning, better return can be ensured only when deposits are properly mobilized through sound investment policy.

This study “comparative analysis of investment policy” of two major JVB’s will provide a useful feedback to academic institutions, bank employees, trainees, investors, policy making bodies and those concerned with banks in the formulation of appropriate strategies for improving the performance of banks.

#### **1.5 Limitation of the study**

Like every research study, this study also has some limitations viz- inadequate coverage of commercial banks, time period taken and other variables. The following factors are the basic limitations.

- 1) This study is based on secondary data collected from the banks, particularly based on data gathered from the published annual report for the two banks along with NRB directives issued from time to time.
- 2) This study is limited to only a period of five years of the concerned banks and hence the conclusion drawn only confines to the above period (F.Y.2007/2008 TO 2011/2012).
- 3) This study deals with only two JVB's i.e. NABIL and SCBNL. Other commercial banks have not been considered in this study.
- 4) The samples have been drawn at random for convenience, so there may exist some sampling error. And the sample size may not be sufficient to generalize the findings.

## **1.6 Definition of key terminology**

Joint venture: "A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial) investment, production or trade." (Grupt; 1984:15)

In order to operate a business organization under joint venture basis, there should at least be two partners from two different countries, joint venture banks are the commercial banks formed by joining two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods and services. JVB's are the mode of trading to achieve mutual exchange of goods and services for sharing competitive advantage by perfuming joint investment scheme between Nepalese investors and their parent banks each supplying agreed percentage of total investment. The parent banks, which have experience in highly merchandised and efficient modern banking services in many parts of the world, have come to Nepal with latest technology and advanced management skills. JVB's are established by

joining forces and with ability to achieve a common goal with each of partners. They are more efficient and efficient monetary institution in modern banking fields than other old type of banks in Nepalese context.

### **Features of a sound lending and investment policy**

The income and profit of financial institution depends upon to its lending procedure, lending policy and investment of its fund in different securities. A sound lending and investment policy is not only prerequisite for bank's profitability but also of utmost significance for the promotion of commercial saving of an under developed and backward country like Nepal.

The factors that banks must consider for sound lending and investment policies are explained as under:

#### **a) Safety and security**

Banks should buy investment rated securities only. It should obtain form investing its fund in those securities, which are subject to greater depreciation and fluctuation for example common stock, since a little difference may result in a great loss. It must not advance its funds to speculative business, which may earn millions in a minute or may become bankrupt the next minute. Since risk is overpriced during recession and under priced during boom, banks should invest in medium grade and high grade securities during recession and boom respectably. Bank should buy securities, which are commercial durable, marketable and have high market price. In this regard, "MAST" should be followed while investing,

Where,

- M = Marketability
- A = Ascertainably
- S = Stability
- T = Transferability

**b) liquidity**

Liquidity is defined as bank's capacity to pay cash exchange of deposits. People deposit their money in banks because they believe that the bank will repay their money on demand. In order to retain good credit standing and trust and confidence of its customers every banks must maintain enough liquidity to meet its various obligations.

**c) Purpose of loan**

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. The first substantive question a banker must examine is how loan proceeds will be used. If the loan purpose conflicts with commercial policy, such as loan for some speculative purpose not acceptable to the banker such loans should not be processed. If customers misuse their borrowings, there is risk involved in repayment and the bank will incur heavy bad debts. Detailed information about the plan and scheme of project should be collected and examined before borrowing.

**d) Diversification**

Investment and credit concentrated on same geographical region, same sector of business and few customers increase the risk. Hence the policy should fix a cap on all these aspect. As the saying goes "All eggs should not be put in the same baskets", therefore, in order to minimize the risk, a bank should diversify its investable funds in different securities. This diversification or portfolio investment helps to earn good return and at the same time minimize the risks and uncertainty.

**e) Legality**

A commercial bank must follow the rules and regulation and statutory directives issued by Nepal Rastra bank, ministry of finance and others

while issuing securities and mobilizing their funds. In Nepal, NRB respects financial institution licensed by it to invest in securities of each other.

## **1.7 Plan of the study**

This study has been organized in the following chapter in order to make it easy to understand.

The first **chapter** is an introductory chapter which contains background of the study, introduction of commercial banks, focus of the study, statement of the problems, objectives of the study, limitation of the study and organization of the study.

The **second chapter** is concerned with review of literature. This contains conceptual framework, review of legislative provision, review of research paper and published and unpublished master's thesis of T.U.

The **third chapter** is the most important part of the study. It deals with the research methodology, which is applied to collect the data and analyze them in this study. It contains introduction, research design, sources of data, population and sample, financial analysis and statistical analysis.

The **fourth chapter** is analyzing one, which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to financial performances for JBV's. Major findings of the study have been presented at the end of this chapter.

The **fifth chapter** is the last part of the study, which provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks.

## **CHAPTER – II**

### **REVIEW OF LITERATURE**

#### **2. Introduction**

Review of literature is one of the most significant parts of research. It will be better to review some fundamental aspects of relevant literature before doing analysis. So, it is attempted to present brief glimpse on the common stock as well finding of the related previous studies. The review of literature has been divided into two broad categories which are as follows:

#### **2.1 Theoretical perspectives**

##### **2.1.1 Commercial Bank**

“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; 1972:325)

Commercial bank act 1975 AD (2031 BS) defines, “ A commercial bank is one which exchange 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”.( commercial bank act 2031 BS)

The commercial bank has its own role and contributions in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people. (Grywinshki; 1991:87)

Commercial bank deals with others money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. Liquidity is the lifeline of bank. Any bank perceived to be

illiquid cannot attract deposit from the public. Inadequate liquidity does damage credit standing of that organization, but if banks fail to repay the deposits on demand, the bank loses the trust of the public. This leads to “runs” in the bank and probably bankruptcy thereof. Trade off between liquidity and profitability is thus a crucial task for any bank. Satisfactory trade off is possible through correct prediction of liquidity needs and judicious distribution of resources in various forms of liquid and high earning assets.

The main function of commercial bank is concerned with the accumulated of the temporarily idle money of the general public to advance it to deficit sections i.e. trade and commerce for expenditure. Its main functions are:

- Accepting various types of deposits:
- Lending money in various productive sectors:
- Letter of credit (LC)
- Guarantee (G’tee)
- Remittance
- Bills
- Others

Hence, a commercial bank can be defined as a “Financial department store”, which renders a host of financial services besides taking deposits and giving loans.

### **2.1.2 Joint Venture**

“A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial) investment, production or trade”. (Gri. 1984:15)

In order to operate a business organization under joint venture basis, there should at least be two partners from two different countries. Joint venture banks are the commercial banks formed by joining two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of good and services. JVB's are the mode of trading to achieve mutual exchange of good and services for sharing competitive advantage by performing joint investment scheme between Nepalese investors and their parent banks each supplying agreed percentage of total investment. The parent banks, which have experience in highly merchandised and efficient modern banking services in many parts of the world, have come to Nepal with latest technology and advanced management skills. JVB's are established by joining forces and with ability to achieve a common goal with each of the partners. They are more efficient and efficient monetary institution in modern banking fields than other old type of banks n Nepalese context.

The primary objective of these JVB's is always to earn profit by investing or granting loan and advances to people associated with trade, business, industry etc.

### **2.1.3 Features of a sound lending and investment policy**

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**c) Profitability**

Commercial bank can maximize its volume of wealth through maximization of return on their investments and lending. They must invest their fund in viable sectors where they can earn maximum profit. Their return depends upon the interest rate,

volume of loan, duration of the loan and nature of investment in different securities.

**d) Purpose of loan**

It is very important to be reminded that most of the bank failures in the world are due shrinkage in the value of loan and advances. The first substantive question a banker must examine is how loan proceeds will be used. If the loan purpose conflicts with commercial policy, such as loan for some speculative purpose not acceptable to the banker such loans should not be processed. If customer misuses their borrowings, there is risk involved in repayment and the bank will incur heavy bank debts. Detailed information about the plan and scheme of project should be collected and examined before borrowing.

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**f) Legality**

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## **2.1.4 Meaning of some important terminology**

### **a) Assets**

Assets, representing economic resources are the valuable possessions owned by the firm. These possessions should be capable of being measured in monetary terms. Assets are the future benefits. They represent: a) stored purchasing power (e.g. cash), b) money claims (e.g. receivable stock) and c) tangible and intangible assets that can be sold or used in business to generate earnings. Tangible items include land building, plant equipment or stock of materials and finished goods and all such other items, which have physical value. Intangible items do not have physical existence, but they have value to the firm. They include patents, copyrights, trade name or goodwill. Assets may be current assets or long term assets. Current assets are those assets that expected to be converted into cash within the accounting period. Long- term assets normally include fixed assets, long- term investment and other not current assets that are held for longer periods for use in business.

### **b) Advances**

Advance is amount of money, which are paid or lent before any actual benefit has been derived. It could be expenses of future period paid in advance, advance for current supplies or advances against acquisitions of capital assets

### **c) Balance sheet**

Balance sheet is one of the most significant financial statements, which is prepared at the end of each accounting period that indicates the financial condition or the state of affairs of a business at a given moment of time. More specifically, balance sheet contains information about the assets liabilities and ownership equity capital.

**d) Bond**

A bond is the source of long term financing issued by an organization in written form under which the organization or the borrower agrees to pay principal and interest to the lender on specific date. It may be secured i.e. mortgage bond with fixed assets pledged as security or unsecured like debenture bond.

**e) Deposits**

Deposits are the main source of fund of the financial institution. It is the sum totals of money collected form the depositors in various accounts.

**f) Liquidity position**

Liquidity assets are those assets that can be quickly converted into cash. Liquidity assets determine the liquidity position of the organization/ higher the liquid assets better the liquidity position. Liquidity position refers to the state of owing things of value that can easily be changed into cash.

**g) Share**

The part of capital owned by a shareholder is called share. Any person can become a member of a company by purchasing the certificates of investment of the company also called share, and can withdraw his/her membership by transferring his/ her shares. Shares are major source of long- term financing

**h) Securities**

Securities are the main source of long term financing. They consist of shares and debentures issued by government or any company, which may or may not be redeemable with interest in the future.

**i) Income statement**

It is a statement, which presents the summary of revenue expenses and net income or net loss of a firm at a given period of time. Thus, it

serves as measure of firm's profitability. Revenues are amounts, which the customers pay to the firms for providing them goods and services. The firm uses economic resources in providing goods & service to customer. The costs of economic resources are called expenses. Net income is the amount by which revenues earned during a period exceeds expenses incurred during that period.

**j) Retained earning**

It represents total undistributed earning. It is that portion of firm's earnings, which is kept for future use and contingences, it is also an internal source of financing

**k) Liability**

Liabilities are debts payable in future by the firm to its creditors. They represent economic obligation to pay cash or provide goods or services in some future period generally, borrowing money or purchasing goods or services on credit creates liabilities. Examples of liabilities are creditors, bills payables, wages and salaries payable, taxes payable, etc.

**l) Off-balance sheet transaction**

Off- balance sheet transaction are future agreements concerning bills purchase, letter of credit, guarantees and forward contracts. They are also treated as contingent liabilities.

**m) Standard deviation**

Standard deviation is the positive square root of the mean of the deviation taken from the arithmetic mean, which measures the variability of a set of observations. It is denoted by 'σ' and measures risk.

**n) Variance**

The square of standard deviations called variance. It is generally denoted by 'σ<sup>2</sup>'. It is one of the statistical tools used in the analysis data for this study.

**o) Coefficient of variation**

Co-efficient of variation (C.V.) is the proportion of standard deviation with mean multiplied by 100 mathematically,

$$C.V. = \frac{S.D.}{\bar{x}} \times 100\%$$

A mean is the average value or sum of all the observation divided by the numbers of observation. It is denoted by  $\bar{x}$ . Mathematically

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

**p) Correlation**

Correlation is a statistical tool, which represents the relationship between two variables. Under correlation analysis two variables are correlated if a change in the other. It does not however explain the causes and effects of the change in variables. It is of two types positive correlation and negative correlation.

**q) Ratio Analysis**

The relationship between two accounting figures, expressed mathematically, is known as ratio. Ratios help to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm.

In the study on investment policy the following ratios of selected firms are calculated and analyzed.

- a) Liquidity ratio
- b) Asset Management ratio
- c) Profitability ratio
- d) Growth Ratio
- e) Risk ratios

## **2.2 Review of Related Studies**

### **2.2.1 Review of Journal/Article**

Under this heading some related articles published in different books, economic journals, World Bank Bulletin, magazines, newspaper have been examined and reviewed.

Shiba Raj Shrestha in his article “Portfolio Management in commercial Bank, Theory and practice” (Shrestha; 2055 B.S:13) has emphasized that portfolio management is essential for individual and institutional investors. Though in the case of small investor as they are not left with much of an option it may be limited to small savings, but for large investors, diversification through investment in mutual funds, shares, debentures should be practiced as any rational investor would seek to derive the maximum return on investment although assuming some risk at the same time A best mix of investment assets fulfilling the under mentioned aspects are preferred by prudent (large) investors. They are:

- a) Higher return which is comparable with alternative opportunities available not undermining the risk taking capability of the investor.
- b) Adequate liquidity with sufficient safety and profitability of investment.
- c) Maximum tax concessions.
- d) Certain capital gain and flexibility of investment.
- e) Economic, efficient and effective mix of investment etc.

With these in view, the following strategies need to be adopted:

- 1) To have a portfolio of different securities and not just holding a single security
- 2) Don't put all the eggs in the same basket. (For instance don't invest in a single company or single sector). Diversification of investment should be practiced for adequate safety, liquidity and profitability.
- 3) Choose such a portfolio of securities, which ensures maximum return with low degree of risk and uncertainty.

Shrestha has put forward the following approach to be adopted for designing & managing good portfolio.

- a) Search investment assets (generally securities), which have scope for better returns, depending upon individual characteristics like age, health, need deposit, liquidity and tax liability etc.
- b) To identify variety of securities for investment to reduce volatility of returns and risk.
- c) To develop alternative investment strategies for selecting a better portfolio which will ensure a trade off between risk and return so as to attain the primary objective of wealth maximization at lowest risk.
- d) To find out the risk of the securities depending upon the attitude of investor towards risk.

Shrestha has also recommended that banks in order to succeed in portfolio management should have skilled manpower, research and

analysis team, and proper management information system. He has suggested that the banks having international network can also offer access to global financial markets.

He has also stressed that:

The survival of every bank depends upon its own financial health and various activities

1. In order to develop and expand the portfolio management methodology of a portfolio manager should reflect high standard and give their clients the benefits of global strength, local insights and prudent philosophy.
2. The Nepalese banks having greater network and access to national and international capital market have to go for portfolio management activities for the increment of their fee based income as well as to enrich their fund based income and to contribute to the national economy.

Bodhi R. Bajracharya in his article “Monetary Policy and Deposit Mobilization in Nepal” (Bajracharya; 1991:93) writes “Mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal and for this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different aspects of the economy.

Dr. Sunity Shrestha in her article “Lending operation of commercial banks of Nepal and its impact on G.D.P.” (Shrestha; 1997:23) has presented an objective to make an analysis of contribution of commercial banks lending to the G.D.P. of Nepal. She has set hypothesis that there has been positive impact of commercial bank lending to the G.D.P. in research methodology she has considered G.D.P.

as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial service, general and social sectors as independent variables,. A multiple regression technique has been applied to analyze the contribution, the multiple analyses have shown that all the variable expect service sector lending have positive impact on G.D.P. when concluding, she has accepted that hypothesis i.e., there has been positive impact by the lending of commercial banks in various sectors of economy except service sector economy.

Mr. Ramesh lal shrestha in his article “A study on deposits and credit of commercial bank in Nepal” ( Ramesh lal shreshtha ) concluded that the credit deposit ratio would be 51.3% other things remaining the same in Nepal, which was the lowest under the period of review. He strongly recommended that the commercial banks should try to give more emphasis on entering new field as far as possible; otherwise they might not be able to absorb even the total expense.

Mr. bhaskar sharma in his article “banking the future on competition (sharma; 2:13) has highlighted that majority of commercial banks are being established and have operation in urban areas only. They have shown no interest to open branches in rural areas. The branches of NBL and RBB are only running in those sectors. The commercial banks are charging higher interest rate on lending, they are offered maximum tax concession, they do not property analyze the credit system.

According to him “ due to lack of investment avenues, banks are temped to invest without proper credit approval and on personal guarantee, whose negative side effects would show true colors only after four or five years” he has further added that private bans have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Mr. Shekhar bahadur pradhan in his article “Deposit mobilization its problem and prospects” (pradhan; 1996:9) points out that deposit in the life blood of every financial institution. That latest financial/accounting figure of most bank and financial companies produce a strong feeling that serous review must be made with regards to problem and prospect of deposit sectors. Leaving a few joint venture banks other organizations rely heavily on the business deposit and credit disbursement.

Mr. Pradhan has highlighted the following problems of deposit mobilization in the Nepalese context.

1. Most Nepalese people do not o for institutional saving due to lack of adequate knowledge. They are much used to saving in the form of cash and ornaments. Their half heartedness to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawal system, availability of deposit faculties And so on.
2. Unavailability of institutional services in rural areas.
3. Due to lesser office hours of banking system, people prefer holding cash in their personal possession.
4. Improper mobilization and improvement of the employment of deposits towards various sectors.

For proper deposit mobilization, he has recommended the following:

1. Provide sufficient institutional services in the rural areas.
2. Cultivate the habit of using rural banking unit.
3. Add service hours to the bank.
4. NRB should organize training programs to develop skilled manpower.
5. Spreading co-operatives to rural areas to develop mini branch service.

Mr. Bhagat bishtha in his research paper “Nepalma Adhunik Banking Byabastha“ (BIshtha;248) has made an attempt to highlight some of the

important indicators, which have contributed to the efficiency and performance of joint venture banks. He writes that the establishment of JVB's a decade ago marks the beginning of modern banking area in Nepal. The JVB's have brought in many new banking techniques such as computerized hypothecation, consortium finance and modern fee based activities into the economy. This is indeed a significant milestone in the financial development process of the economy

IN the context of Nepal, a few researchers have published their articles with regards to investment policy. More research in the field of investment policy in commercial banks and financial institutions is the need of the hour.

Dr. Govinda bahadur thapa in his research paper “ financial system of Nepal” (thapa;1994) holds the view that the commercial banks including joint venture banks are performing pretty well in the area of deposits mobilizations. loans and advance of these banks are also increasing. In comparison to the credit needs of the newly emerging industries, the banks still seem to lack adequate funds, the banks are increasing their lending to non traditional sectors along with the traditional sectors.

NRB and RBB are operating under nominal profit, have negative net worth, with profits turning negative from time to time owing to non recovery of interest . the margin between interest income and interest expense is decreasing. In traditional off balance sheet operations, these banks have not been able to increase their income from commissions and discounts. To add to the crisis, these banks have to bear a heavy burden of personal and administrative overheads. At the same time due to accumulated overdue and defaulting loans, profitability of these banks has been seriously affected.

Dr. Thapa also points out that the foreign JVB's have been functioning in as extremely efficient manner. They are enjoying huge profit years after year and have been distributing large amount of bonus and dividends to its

employees and share holder. Through effective persuasion for loan recovery even due and defaulting loan have been limited resulting in high margins between interest income and interest expenses. Similarly concentration of these banks to modern off balance sheet operations and efficient human resource management has added to the maximization of their profits.

He concludes by saying that due to the very nature of public sector the domestic banks could not compete with the private sector bank. The only remedy for such banks is to hand over the ownership as well as the management of these banks to the private hands.

Dr. Radhe S. Pradhan has conducted his research on “financial management and practices in Nepal” (Pradhan; 1994). The survey mainly dealt with the financial functions, sources and types of financing, financing designs involving debt, effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy.

The major finding of the study concerned with financial management is given as:

- 1) Banks borrowing and retained earnings are the two most widely used financing sources.
- 2) The enterprises have a definite performance for bank loans at a lower level of debt.
- 3) Most enterprises do not borrow from one bank only and they do switch between banks, which ever offer best interest rates,
- 4) Most enterprises find that banks are flexible in interest rates and convenience.
- 5) Generally, there is no definite item to borrowing the issue stocks that is majority of respondents are unable to predict when the interest rate will be lower or will go up. They are unable to predict when the stock will go up or down.

### **2.2.2 Review of thesis**

Prior to this, several thesis works has been attempted by previous student regarding various aspects of commercial banks like financial performance, lending policy, investment policy, resource mobilization, capital structure etc. among them some research those that were found relevant for this study are presented below.

The objectives of the research were:

- a) To evaluate the liquidity, assets management, efficiency and profitability position.
- b) To discuss fund mobilization and investment policy of NABIL with respect to its fee based off balance sheet transaction in comparison to other JVB's.
- c) To evaluate the growth ratios of loan and advance and total deposits and net profit of other JVB's
- d) To find out the relationship between deposit and total investment, deposit and loan and advance and net profit and outside assets of NABIL comparison to other JVB's.
- e) To evaluate the trends of deposit utilization and its projection for next five years of NABIL compared to other JVB's.

His major findings were:

- a) The liquidity position Of NABIL is comparatively worse than other JVB's NANBIL has utilized more poeticized more portions of current assets as loan and advance and lesser portions in government securities.
- b) The profitability of NABIL is comparatively better then that of other JVB's.
- c) There is significant relationship between deposit and loan and advance as well as outside assets and net profit where as there is no significant

relationship between deposit and total investment in case of other JVB's.

- d) The trend values of loan and advances to total deposit of NABIL and other JVB's are in increasing trend. The trend value of total investment to total deposit of NABIL and other JVB's are in increasing trend.
- e) NABIL is seen to be more successful in increasing its sources of fund for deposit mobilization and granting loan and advances and maintain a good investment but it has failed to maintain its high growth rate of profit in comparisons with other JVB'S

Upendra tuladhar (2000) has conducted a thesis research on "A study of investment policy of Nepal grind lays bank limited in comparison to other JVB's of Nepal."

The basic objectives of this study were:

- a) To study the fund mobilization and investment policy with respect to fee base off balance sheet transaction and fund based on balance sheet activities.
- b) To evaluate the liquidity, efficiency, assets management and profitability position.
- c) To evaluate the growth ratio of loan & advances and total investment with respective growth rate of total deposit and net profit.
- d) To evaluate the trends of deposit utilization towards total investment and loan advances and its projection for net five years.
- e) To perform an empirical study of the customer's vies and ideas regarding the existing service and adopted investment policy of the joint venture banks.
- f) To provide suggestions and recommendation on the basis of this study,

His major findings were:

- a) NGBL has maintained adequate liquidity than other JVB's. it is in a better position to meet current obligation .
- b) NGBL has successfully maintained and managed its assets towards different income generating activities.
- c) The profitability position of NGBL is higher than other JVB's
- d) NGBL has invested higher portion of total working fund in government securities than other JVB's. NGBL's loans and advance to total deposit ratio is less than other JVB's.
- e) NGBL has the largest profit margin in comparison with other JVB's.

Samiksha thapa (2001) has conducted a thesis research on “ A comparative study on investment policy of Nepal Bangladesh Bank and other JVB's (NABIL Bank Limited and Nepal Grindlays bank Limited)”

The research studies were based on the following specific objectives:

- a) To evaluate the liquidity, assets management efficiency, profitability and risk position of NBBL in comparison to BABIL and NGBL.
- b) To analyze the relationship between loan and advances and total investment with other financial variables of NBBL and compare them with BABIL & NGBL.
- c) To examine the fund mobilization and investment policy of NBBL through off-balance sheet and on balance sheet activities in comparison to the other two banks.
- d) To study the various risks in investment of BBBL in comparison to BABIL & NGBL.
- e) To analyze the deposit utilization trend and its projection for next five years of NB Bank and compare it with that of BABIL & NGBL.

The major findings of the study were as follows:

- i. NBBL has good deposit collection, enough liquidity, it has sanctioned enough loan and advances but it has made negligible amount of investment in government securities.
- ii. NBBL is in a weak position regarding its on balance as well as off balance sheet activities.
- iii. Profitability position of NBBL is comparatively worse than that the NABIL & NGBL.
- iv. The credit risk ratio, interest risk ratio, capital risk ratio of NBBL is higher than NGBL & NABIL. It is exposed to more risk.
- v. NBBL has been successful in increasing its sources of funds and its mobilization. The growth ratio of total investment of NBBL is comparatively worse than the other two JVB's.
- vi. There is significant relationship between deposit and loan and advance, outside assets and net profit of NBBL but there is no significant relationship between deposit and investment of NBBL.
- vii. The position of NBBL in regard to utilization of fund to earn profit is not better in comparison to NABIL & NGBL.
- viii. The cost of fund of NBBL is competitively higher than NABIL & NGBL.

**His major findings are enumerated below;**

- a) NSBIL has better liquidity position. It is a good position to meet its daily cash requirement and current obligation. Liquidity position of EBL & BOKL has not been satisfactory.
- b) NSBIL's loan and advance to total deposit ratio is lower than EBL & BOKL. It does not seem to follow any definite policy regarding the management of its assets.

- c) The profitability position of all the banks is not satisfactory. The banks have not adopted sound investment policy in utilizing their surplus funds.
- d) BOKL & EBL are exposed to high credit risk and capital risk.
- e) NSBIL & BOKL have not been successful to increase their sources of fund. EBL has been successful in maintaining its higher growth rate of total deposit.
- f) There is significant relationship between deposits and total investment of BOKL & EBL but the same is not significant in case of NSBIL.

Commercial banks have huge deposit collection. These deposits need to be properly utilized. Effective utilization of collected fund is possible only through implementation of sound investment policy. NABIL and SCBNL are the best examples of JVB's in Nepal that have been able to mobilize the funds in an effective manner and achieved phenomenal growth and profit year by formulating and implementing sound investment policy.

Most research studies conducted prior to this study involving comparative analysis comprised of a successful bank and an emerging bank as samples. It was obvious that the successful bank with sound financial health would excel in various aspects of banking. The possibility of the samples showing different result during data analysis was high. The financial and empirical analysis to data revealed higher degree of consistency in case of successful bank and less uniformity in case of emerging bank.

This study comprises of two of the most successful JVB's as sample viz NABIL and SCBNL. This study is also different from previous studies in view of the time period it covers. During this period the country has witnessed political uncertainty, deteriorating security situation that have rendered the economy further sluggish. There has been a restructuring in the banking business. This study gives a new dimension to the research topic in

the sense that it has adhered to most of the fresh guidelines and directives issued by NRB to commercial banks, which previous studies lack. This study aims at providing a more realistic picture to various financial aspects of the sample banks. In line with fresh guidelines and NRB directives and practices adopted by banks some items of the balance sheet that were previously booked under one leasehold improvements or deferred expenditure that were previously a part of current assets have been accounted for under fixed assets as they are amortized over the period of lease. Similarly, staff loan and advances previously part of Loan Advances and Bills purchase have been booked under other assets, checks presented for clearing have been booked under other assets. Gratuity is expensed on accrual basis and is now a part of personnel expense. Previously, it was the practice of banks to include it under current liabilities and appropriate it from profit and loss account. This study will reveal the strength and weaknesses of the sample bank and serve as a valuable input in decision-making process of the concerned banks and other emerging banks in formulating appropriate investment policy.

### **CHAPTER III RESEARCH METHODOLOGY**

#### **3. Introductions**

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of

the data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantities and qualitative research in a very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings:

### **3.1 Research Design**

This study depends on the secondary data. It includes all the process of collecting, verifying and evaluating of past evidence systematically and objectively to reach final conclusion. Some statistical and accounting tools have been adopted to examine factors in this study. In this study descriptive and analytical research design has been done.

### **3.2 Populations and Sample**

There are all together 32 commercial banks listed in Nepal Stock Exchange. Sample are taken from this population, which are as follows;

- 1 Nabil bank ltd. (NABIL)
- 2 Standard Chartered bank Nepal Ltd. (SCBNL)
- 3 Nepal Investment Bank Ltd. (NIBL)
- 4 Himalayna Bank Ltd (HBL)
- 5 Nepal SBI Bank ltd (NSBIL)
- 6 Bank of Kathmandu Ltd (BOKL)
- 7 Everest Bank Ltd (EBL)
- 8 Nepal Credit & Commerce bank Ltd. (NCC)

- 9 Nepal Industrial and Commercial Bank Ltd. (NIC)
- 10 Machhapuchhre Bank Ltd. (MBL)
- 11 Kumari Bank Ltd (KBL)
- 12 Lumbini Bank Ltd. (LBL)
- 13 Laxmi Bank Ltd. (LXBL)
- 14 Siddhartha Bank Limited (SBL)
- 15 Nepal Bangladesh Bank Limited (NBBL)
- 16 Global Bank Limited (GBL)
- 17 Citizens Bank International Limited (CBIL)
- 18 Prime Bank Limited (PBL)
- 19 Bank Of Asia Nepal Limited (BANL)
- 20 Sunrise Bank Limited
- 21 Grand Bank Limited
- 22 NMB Bank Limited
- 23 Kist Bank Limited
- 24 Janta Bank Limited
- 25 Mega bank Limited
- 26 Nepal Bank Limited
- 27 Rastriya Banijya Bank Limited
- 28 Agriculture Development Bank Limited
- 29 DCBL Bank Limited
- 30 Commerz and trust Bank Nepal Limited
- 31 Civil Bank Ltd
- 32 Century Commercial Bank Limited

Among them, only two joint venture banks viz NABIL & SCBNL have taken into account for research purposes as samples in this research study to compare their investment policy. They are two of the best performing JVB's in Nepal. Their profit per share, percentage of dividend paid per equity capital, net profits are among the highest in commercial

banks. They are equipped with research and analysis team, proper MIS, sufficient capital and skilled manpower. They also have access to Global financial markets. These actors put them in the best position, i.e. it gives them an edge over other banks. They are best suited to exploit the opportunities that are existent. They can easily readdress problem faced by other and can also avoid risks by formulating and implementing sound investment policy.

### **3.3 Source of Data**

This study is mainly based on secondary data. The secondary sources of data collections are financial statements of concerned banks and Nepal Stock exchange's NEPSE report. Other relating data are obtained directly from authorized persons of concerned banks, regulating authority's i.e. NRB directives, Budget speech, published books, banks bulletin, Newspapers, previous studies, Hari khetan multiple campus library and Securities exchange board etc. The data are prerequisites for any project study. The data collection entails labor and time and it is the most necessary step in project study without which the study cannot be done.

### **3.4 Data Analysis Tools**

Analysis and presentation of the data is the core of project study. This study needs some financial and statistical tools to accomplish the objectives of this study. The result extracted from financial and statistical tools have been used to compare with each other to interpret the results. Two kinds of tools have been used to achieve the purpose, namely:

- 1) Financial tools and
- 2) Statistical tools

### **3.4.1 Financial tools**

Financial tools basically help to analyze the strength and weakness of a firm. Ratio analysis being one of the important financial tools has been used in this study. In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm. Ratios help to summarize the large quantities of financial data and to make qualitative judgment about the firm's performance. The point to note is that a ratio indicates a quantitative relationship, which can be used to make a qualitative judgment. There are several ratios involved in analyzing and interpreting the financial statement. In this study, basically four types of ratios have been used which are related to investment policy of banks. They are as follows.

#### **A) Liquidity Ratio**

Liquidity Ratio measures the firm's ability to meet its current obligation. Commercial banks collect fund from the community with a commitment to return depositor's fund or facilitate withdrawal on demand. A firm should ensure that it does not suffer from lack of liquidity and also that it does not have excess liquidity. It is necessary to strike a proper balance between high liquidity and lack of liquidity. The following ratios are evaluated under liquidity ratio.

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

The current ratio is calculated by dividing current assets by current liabilities:

$$\text{CurrentRatio} \times \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

The current ratio is a measure of the firm's short-term solvency. It also shows the relationship between CA and CL of a firm. Current assets include cash and those assets which can be converted into cash within a year such as money at call or short notice, loans and advances, overdrafts, bills purchased and discounted investment in government securities, prepaid expenses, and other interest receivables and miscellaneous current assets. In this research study, leasehold improvement (deferred expenditure) as they are amortized over the period of lease has been included in fixed assets.

All obligation maturing within a year are included in current liabilities such as deposit and other accounts, short term loans, outstanding or accrued expenses, bills payable, tax liability, staff bonus, dividend payable, long term debt maturing in current year and miscellaneous current liabilities. As a conventional rule a current ratio of 2:1 is considered satisfactory ratio is a crude and quick measure of the firm's liquidity.

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

They are the most liquid of current assets to pay off depositors immediately. This ratio is calculated by dividing cash and bank balance by total deposits. In order to bring about consistency in this research, checks for clearing have been excluded from cash and bank balance and included in other assets. Mathematically,

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

Cash and bank balance includes cash in local currency & foreign currency on hand or with banks. The total deposits consists of deposits in current account, savings accounts, fixed deposit account, money at call

deposits, margin deposits etc. A higher ratio indicated greater ability of banks to meet their deposits and vice-versa.

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

This ratio measures the percentage of liquid assets i.e. cash and bank balance in the current assets of the firm. Higher ratio shows greater capacity of firms to meet cash demand. The ratio is calculated by dividing cash and bank balance by current assets.

Mathematically,

$$\text{Cash \& Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& bankbalance}}{\text{CurrentAssets}}$$

**iv) Investment in Government Securities to Current Assets Ratio**

This ratio is used to find the percentage of current assets invested in government securities, i.e. treasury bills, development bonds etc. Commercial banks are interested to invest some portion of their collected fund in government securities as they are risk free and can easily sold in the market. Mathematically,

Investment in Government Securities to Current Assets Ratio

$$= \frac{\text{Total investment in GovernemntSecurities}}{\text{Current Assets}}$$

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

The major portion of a bank's assets side of the balance sheet includes loan and advances. Loan and advance comprise of loan and

advance, credit overdraft, bills purchased and discounted. In this research study, staff loan and advances have been treated as other assets to maintain status quality with the practice followed by banks.

it shows the percentage of total loan and advances to current assets. Mathematically,

$$\text{Loan and Advances to Current Assets Ratio} = \frac{\text{Total Loan and Advance}}{\text{Current Assets}}$$

## **B) Assets management Ratios (Activity ratio)**

In order to satisfy its customers, earn profit and for its own survival a commercial bank must be well versed in managing its assets. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. In this study, it is used to measure the bank's ability to utilize their available resources. The following ratios related to investment policy are calculated under asset management ratio.

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

This ratio is calculated to find out how successfully the selected banks are utilizing their total deposits on loan and advances to generate profits. A higher ratio is indicative of better utilization of total deposits, but the same might not hold true from liquidity point of view. It is computed by dividing total loan and advances by total deposits. Mathematically,

$$\text{Loan and Advance to Total Deposits Ratio} = \frac{\text{Loan and Advance}}{\text{total Deposits}}$$

**ii) Loan and Advances to Total Assets ratio**

The Major portion of a banks assets side of the sheet includes loan and advances. it is also the major component of the total assets. This ratio shows the ability of a bank to channelize its assets in the form of loan and advances to earn higher profits. A high ratio indicated better mobilization of fund as loan and advances and vice-versa. Mathematically,

$$\text{Loan and Advance to Total Assets ratio} = \frac{\text{Total loan and Advance}}{\text{Total Assets}}$$

Where total working fund includes all assets of balance sheet items i.e. current assets, net fixed assets and other miscellaneous

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

This ratio shows the utilization of firm's deposits on investment in government securities and purchasing shares and debentures of other companies. A high ratio is indicative of high success in mobilization of deposits in investments and vice-versa. This ratio can be calculated by dividing total investment by total deposits. Mathematically,

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

**iv) Investment on government Securities to Total Assets Ratio**

This ratio shows the percentage of total assets invested in government securities. In other words, this ratio measures the extent to which the banks have been successful in mobilizing their total working fund on different type of government securities. The logic behind Investment in government

securities by banks is to diversify the risk by not putting all the eggs in the same basket. This is also beneficial in the sense that banks are assured of adequate liquidity. A high ratio indicated better mobilization of funds as investment on government securities and vice-versa. This ratio can be calculated by dividing total amount of investment in government securities by the total assets.

Mathematically,

$$\text{Investment in Government Securities} = \frac{\text{Investment in Govt. Securities}}{\text{Total Assets}}$$

**v) Investment on Shares and Debentures to Total Assets Ratio**

This ratio shows the percentage of investment in purchasing shares and bonds & debentures of other companies. Investment on shares and debentures to total assets measures the extent to which the banks have been successful in mobilizing their total assets on shares and debenture of other companies of generate income. A high ratio indicated portion of investment on shares and debentures out of total assets and vice-versa. This ratio is calculated by dividing the total amount of Investment in shares & debenture of other companies by total assets mathematically,

Investment on Shares & Debentures to Total Assets Ratio

$$= \frac{\text{Investment in Shares \& Debentures}}{\text{Total Assets}}$$

**C) Profitability Ratio**

The profitability ratios are calculated to measure the overall efficiency of a firm in terms of profit earning and performance. Profit is one of the major indicators of efficient performance of banks. One of the major objectives of banks is to earn profit, so profit is very crucial for the survival

of banks. To meet various objectives like, maintaining good liquidity position, meet internal obligations, expansion of banking services, finance short-term government needs, commercial banks need to earn sufficient profit. A higher profit ratio show higher efficiency of a bank.

The following ratios related to investment policy are calculated under profitability ratios.

### **I Return on Loan and Advance Ratio**

Return on loan and advances ratio indicates how efficiently the bank has utilized its resources in the form of loan and advances to generate good return. It measures the earning capacity of a commercial bank. This ratio is calculated by dividing net profit by loan and advances mathematically.

$$\text{Return on loan \& Advances Ratio} = \frac{\text{Net Profit /loss}}{\text{Total loan and Advances}}$$

### **II) Total interest Earned to Total Assets Ratio**

This ratio is calculated to find the percentage of interest earned to total assets. This ratio reflects the extent to which banks are successful in mobilizing their assets to generate high income. This ratio presents the earning capacity of a bank on its total assets. Higher ratio indicates better performance or proper utilization of total assets in the form of interest earned on its working fund. This ratio is calculated by dividing total interest earned by total assets. Mathematically,

$$\text{Total Interest Earned to Total Assets ratio} = \frac{\text{Total Interest Earned}}{\text{Total Assets}}$$

### **III) Total Interest Earned to operating Income Ratio**

This ratio is measured to find out the ratio of interest income with operating income of the bank. it shows how efficiently the banks have

mobilized their resources in interest bearing assets i.e., loan and advances, investment in government securities. Total operating income includes interest income, commission fees & discount, dividend income, foreign exchange income etc. This ratio shows the magnitude of interest income in total income. It is calculated by dividing total interest earned by net operating income. Mathematically,

$$\text{Total interest Earned to Total Operating Income Ratio} = \frac{\text{total interest earned}}{\text{Total Operating income}}$$

#### **IV) Total Inter Earned to Total outside Assets Ratio**

This ratio is calculated to find the percentage of interest earned to total outside assets of the bank, which includes loan and advances, investment on Government securities, Investment on share and debentures and all other types of investment. It is calculated by dividing total interest earned by total outside assets. A high ratio indicates high return on total assets and vice-versa. Mathematically,

$$\text{Total interest Earned to Outsides Assets} = \frac{\text{Total interest Earned}}{\text{Total outside Assets}}$$

#### **V) Total Interest Paid to Total Assets Ratio**

This ratio measures the percentage of total interest expenses against total Assets. A high ratio is indicative of higher interest expenses on total assets. This ratio is calculated by dividing by total interest paid by total Assets. Mathematically,

$$\text{Total Interest Paid to Total Assets Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Assets}}$$

#### **D) Risk Ratio**

Risk means uncertainty, variability of return, which is inherent in any investment portfolio of a business enterprise. Risk is an important element

since investment with greater risk requires higher return than investments with lower risk. Risk ratios measures the degree of risk involved in various financial operations. The possibility of risk involved in bank's financial operations makes the bank investment a challenging task. As the notion goes, "no risk no gain", therefore, if a bank expects high return on its investment it must be prepared to accept the risk and manage it efficiently.

The following risk ratios are used to analyze and interpret the financial data and investment policy.

#### **i) Liquidity Risk Ratio**

Liquidity risk of the bank defines its liquidity needs for deposit. Cash and bank balance are the most liquid of all the assets and are considered bank's liquidity sources. Deposits on the other hand refer to the liquidity needs of banks.

This ratio measures the risk associated with the liquid assets i.e. cash and bank balance that are kept to satisfy the cash demand of customers. A higher ratio shows that the bank has sufficient cash to meet its current obligations i.e. lower liquidity risk, but that may have an adverse impact on the profitability position of the bank. A trade off between liquidity and profitability must be maintained. This ratio is calculated by dividing cash and bank balance by total deposit. Mathematically,

$$\text{Liquidity Risk Ratio} = \frac{\text{Total Cash \& bank Balance}}{\text{Total Deposit}}$$

#### **ii) Credit Risk Ratio**

Normally, every credit is good at the time it is sanctioned. Most of the bank failures are due to shrinkage in the value of loan and advances. Loan is a risky asset and risk of non-repayment of loan is known as credit risk or default risk. Credit risk ratio measures the possibility of loan going into

default. While sanctioning loans banks measure credit risk involved in the project. Credit risk is calculated by dividing total loan and advances by total assets. Mathematically,

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan and Advance}}{\text{Total Assets}}$$

### **E) Growth Ratio**

The growth ratios represent how the commercial banks are maintaining their economic and financial condition. As a conventional rule, a higher ratio is preferable. A high ratio indicates better performance of the banks and vice-versa. The following growth ratios directly related to the fund-mobilization and investment of the banks are calculated:

- i) Growth ratio of total deposit
- ii) Growth ratio of total investment
- iii) Growth ratio of loan and advances
- iv) Growth ratio of net profit

### **3.4.2 Statistical Tools**

Some important statistical tools have been used to present and analyze the data for achieving the objectives of this study. Co-efficient of variance, Co-efficient of correlation, standard deviation, least square, linear trend analysis etc. have been used for the purpose of investment policy analysis.

#### **a) Karl Pearson's Correlation Co-efficient Analysis**

This statistical tool interprets and identifies the relationship between two or more variables. It identifies whether two or more variables are positively correlated or negatively correlated statistical tool helps to analyze the relationship between these variables and aids the selected banks to prepare

appropriate investment policy relating to deposit collection, fund utilization (loan and advances and investment) and profit maximization. This study attempts to find out relationship between the following variables:

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

Karl Peason's correlation coefficient (r) be obtained by using the following formulae.

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} \quad \text{Where } x = (\bar{x} - x), Y = (\bar{y} - y)$$

Here ,  $\sum x$  Xsum of observation in series x

$\sum y$  X sum of observation in series Y

$\sum x^2$  X sum of squared observation in series X

$\sum y^2$  Xsum of squared observation in series Y

$\sum xy$  X sum of the product of observation in series x & y.

The co-efficient of correlation (r) lies between -1to +1, If r = + 1 there exists a significant relationship between the two variables. if r = -1, then the two variables are negatively correlated or there is no significant relationship between the two variables.

### **b) Trend Analysis:**

Under this topic we analyze the trend of deposits , loan and advances, investments and net profit of NABIL and SCBNL from F/ Y 2007 /2008 to F/Y 2011/2012 . It also aids in making forecasting for the next five years up

to 2016 /2017. The following trend value analysis has been used in this study.

**b) standard deviation (S.D)**

The standard deviation measures the absolute dispersion. the lower the percentage of dispersion lower the standard deviation . The lower percentage of dispersion also projects a high degree of uniformity of the observations as well as homogeneity of the series. A large value of standard deviation suggests exactly the opposite. in this study standard deviation of different ratios are calculated. Mathematically,

$$S.D ( ) = \sqrt{\frac{(x-\bar{x})^2}{n}}$$

**c) Co- efficient of variation ( C.V.)**

C. V is the proportion of standard deviation with mean multiplied by 100. Mathematically.

$$C.V = \frac{S.D \times 100 \%}{\text{Mean}}$$

**d) Test of Hypothesis .**

Under this analysis , effect has been made to test the significance level regarding the parameters of parameters of the population on the basis of sample drawn from the population . This test has been conducted on the following

- i) Test of hypothesis on loan and advances to total deposit ratio of NABIL & SCBNL.
- ii) Test of hypothesis on investment in Government securities to current assets ratio of NABIL & SCBNL.

- iii) Test of hypothesis of total investment to total deposit ratio of NABIL & SCBNL.
- iv) Test of hypothesis of return on loan and advances ratio of NABIL & SCBNL.
- v) Test of hypothesis on total interest earned to total outside assets of NABIL & SCBNL.

**CHAPTER –IV**  
**DATA PRESENTAION AND ANALYSIS.**

#### **4.1 Data presentation and analysis.**

This is an analytical chapter, where the researcher has analyzed and evaluated those major financial items, which are mainly related to the investment management and fund mobilization. From the point of view of the fund mobilization and investment policy only those ratios are calculated and analyzed which are relevant and important for this study. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned banks. The important and required financial ratios, which are to be calculated for the purpose of this study, are computed and analyzed in the following paragraphs.

#### **4.2 Statistical tools**

Under this topic, some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposits, loan and advances, investment and net profit as well as hypothesis test (t-statistic) are used to achieve the objectives of the study. These statistical tools are as follows:

##### **A) coefficient of correlation analysis**

Under this topic, Karl Pearson's coefficient of correlation is used to find out the relationship between deposit and loan and advances, deposit and total investment, outside assets and net profit, deposits and net profit, deposits and interest earned, loan and advance and interest paid total working fund and net profit.

##### **i) coefficient of correlation between Deposits and Loan and advances.**

The coefficient of correlation between deposits and loan and advance measures the degree of relationship between them. In our study, we have

taken deposit as an independent variable denoted by (x) and loan and advance as dependent variable (y) . The main objective of calculating 'r' between these two variables is to justify whether deposits are significantly used as loan and advances or not.

The following table shows the value of 'r'  $r^2$ , PEr and 6PEr between total deposit and loan and advance of NABIL and SCBNL during the study period (for detail see Appendix 18) .

**Table No. 4.21**  
**correlation between Deposit and loan and advances**

Bank	Evaluation criteria			
	R	$R^2$	PEr	6PEr
NABIL	0.1177	0.0183	0.2975	1.7849
SCBNL	0.595	0.535	0.1948	1.17

In the above table the coefficient of correlation between deposit and loan and advance in case of NABIL is 0.1177 . This indicates that there exists a somewhat positive relationship between deposit and loan and advances. The calculated value of ( $r^2$ ) or coefficient of determination is 0.0138. This means 1.38% of variation of the dependent variable (Loan and advances ) has been explained by the independent variable (deposit). when the value of 'r' i.e.0.1177 is compared with six times the probably error or 6EPr . i.e.,1.7849, We can say that there exists no significant relationship between deposits and loan advance because 'r' is lower than six times PE. r i.e 0.1177<1.7849. The coefficient of correlation 'r' between deposits and loan and advance incase of SCBNL is 0.595, which gives us an indication of higher positive correlation between them . Similarly, the value of coefficient of determination ( $r^2$ ) is found to be 0.353. This show that 35.30% variation of dependent variable (Loan and advance) has been explained by the independent variable (deposit) . The value of 'r' is less than six times PE, i.e. 0.595 >0.1.17.

From the above analysis, we can conclude that though both the banks show positive relationship between deposits and loan and advance, the relationship is highly significant is case of SCBNL and the value of ( $r^2$ ) show higher percentage of dependency. In case of NABIL the relationship is less significant and ( $r^2$ ) show lower percentage of dependency .It indicates SCBNL has been more successful in utilizing its deposits in a proper manner than NABIL. To sum up, the increase in loan and advance is not due to effective mobilization of deposits rather than other factors have played a greater role in increase in loan and advances.

**ii) Coefficient of correlation between Deposit and total Investment.**

Coefficient of correlation between deposit and total investment measures the degree of relationship between these two variables. Here deposit is taken as independent variable (x) and the variable dependent on deposits is total investment, which is denoted by (y). The Purpose of calculating 'r' is to judge whether deposits are significantly mobilized as investments or not.

The following table shows the value of 'r' ( $r^2$ ) PEr & 6PEr of NABIL and SCBNL during the study period.

**Table No. 4.22**  
**Correlation between and Total Investment Deposit .**

Bank	Evaluation Criteria			
	R	$R^2$	PER	6 PER
NABIL	0.64	0.409	0.178	1.07
SCBNL	0.593	0.908	0.028	0.167

The coefficient of correlation 'r' between deposits and total investment in case of NABIL is 0.64 , which indicates a positive correlation between deposits and total investment. Coefficient of determination ( $r^2$ ) is 0.409 . This indicates 41% of variation of the dependent variable has been explained by independent variable. the value of 'r' i.e. 0.64 is less than six times P.E.r . This states that there does not exist a significant relationship between deposits and total investment.

The coefficient of correction 'r' between deposit and total investment in case of SCBNL is 0.953 , which indicates a positive relationship between the two variables. The coefficient determination ( $r^2$ ) is 0.908/ This indicates that 91% of the variation of the dependent variable has been explained by independent variable . Moreover 'r' is greater than six times P.E.r, which further states that there is a significant relationship between deposits and total investment.

In conclusion, it can be said that both the banks show significant relationship between total deposits and total investment. However, the relationship is more significant in case of SCBNL .

**B) Trend analysis and projection for next five years.**

This is known as time series analysis. The objectives of this analysis are to analyze the trend of deposit collection, its utilization and net profit of NABIL and SCBNL. This topic analyzes the trend of deposits, loan and advances, total investment and nets profit and its projection for next five years the basis of past performance and records available.

The projections are based on the following assumptions.

- The bank will run in this present position i.e. trend will repeat itself.
- Others things will remain constant or unchanged.
- The economy will remain in the present stage.
- Nepal Rastra Bank will not change its guidelines relating to commercial banks.
- The forecast will hold true only when the limitation of least square method is carried out.

**i) Analysis of Trend value of Total deposit.**

Under this topic, based on the trend values of deposit from F/Y 2007-08 to 2012-13, an attempt has been made to forecast the projection for next five years, i.e. up to F/Y 2016-17, The following table shows the trend value of deposits from F/Y 2003/2004 to F/Y 2012/2013 (For detail refer Appendix - 22)

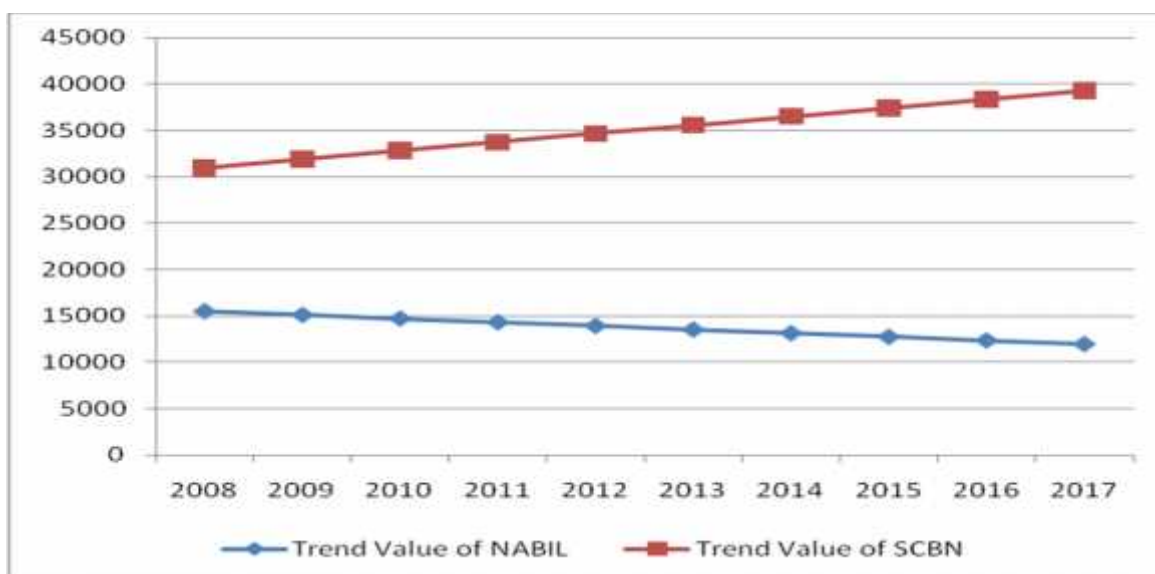
**Table No. 4.23**  
**Trend values of Total Deposit of NABIL and SCBNL.**

FY	Trend Value of NABIL	Trend Value of SCBN
2008	15478.104	15476.44
2009	15088.964	16790.02
2010	14699.824	18103.59
2011	14310.684	19417.17
2012	13921.544	20730.75
2013	13532.404	22044.32
2014	13143.264	23357.90
2015	12754.124	24671.48
2016	12364.984	25985.05
2017	11975.844	27298.63

From the above comparative table it is clear that trend values of SCBNL are in an increasing trend. If other things remain unchanged the total deposit of NABIL is predicted to be Rs. 11975.84 million and that of SCBNL to be more than two times the deposit of NABIL by the end of F/Y 2016/2017 i.e. rs 27928.58 million .

From the above trend analysis, it is quite obvious that SCBNL's deposit collection is proportionately much better than NABIL.

**Figure No. 4.1**  
**Trend value of Total Deposit of NABIL and SCBNL .**



**ii) Analysis of Trend Values of Loan and advance.**

Here, the trend values of loan and advance of NABIL and SCBNL have been calculated for five years from F/Y 2008/09 to 2012/13 and the forecast for next five years. i.e. from F/Y to F/Y 2016/2017 has been made (for detail refer Appendix -23)

**Table No. 4.24**  
**Trend value of loan and advance of NABIL and SCBNL .**  
**Rs. in million**

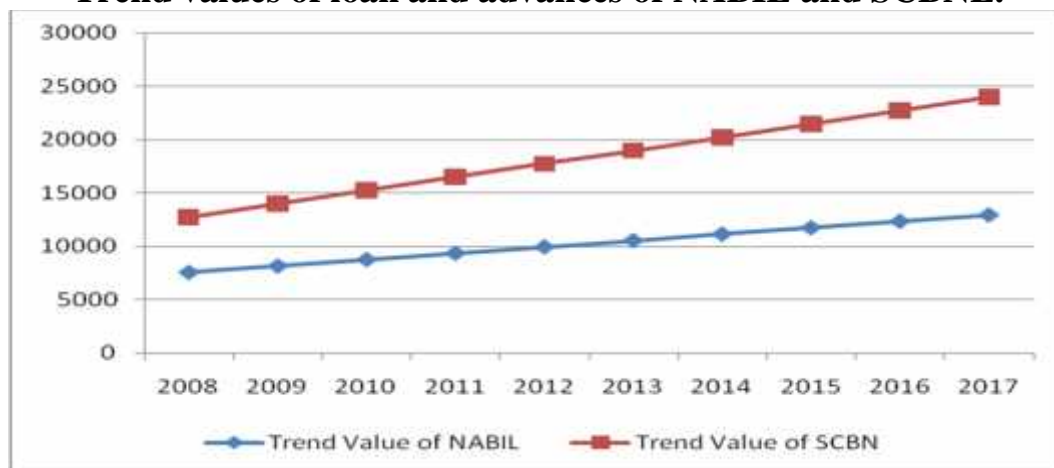
FY	Trend Value of NABIL	Trend Value of SCBN
2008	7548.74	5203.34
2009	8147.933	5851.01
2010	8747.126	6498.68
2011	9346.319	7146.35
2012	9945.512	7794.02
2013	10544.705	8441.69
2014	11143.898	9089.36
2015	11743.091	9737.03
2016	12342.284	10384.70
2017	12941.477	11032.37

The above table clearly shows that the loan and advance of both the banks are in an increasing trend. Assuming that other things will remain constant, the loan and advances of NABIL at the end of F/Y 2016/17 is predicted to be Rs. 12941.47 million. Similarly, the projection for SCBNL at the end of F/Y 2016/17 is Rs 11032.37 million.

From the above trend analysis, it is quite clear that NABIL'S loan and advance in relation to SCBNL is comparatively higher through out the trend projection period.

**Figure No. 4.2**

**Trend values of loan and advances of NABIL and SCBNL.**



**iii) Analysis of trend values of total Investment.**

Under this topic, based on the trend values of Investment from F/Y 2008/09 to 2012/13 , an attempt has been made to forecast the projections for next five years i.e. upto F/Y 2016/17.

The following table shows the trend value investment from F/Y 2008/09 to F/Y 2016/17 (for detail refer Appendix -23)

**Table No. 4.25**

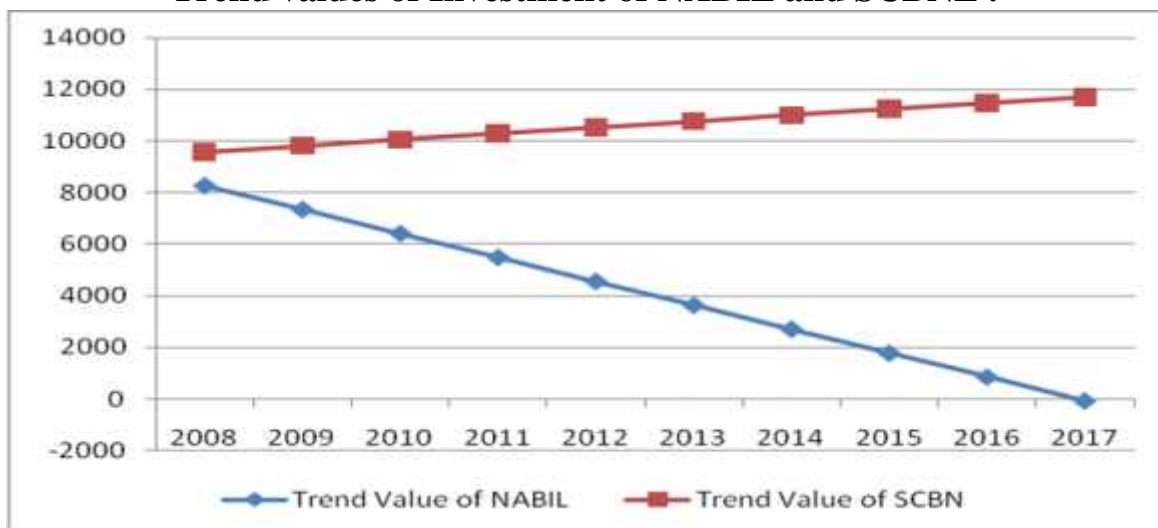
**Trend Values of Investment of NABIL and SCBNL.**

FY	Trend Value of NABIL	Trend Value of SCBN
2008	8255.18	9576.90
2009	7331.408	9814.01
2010	6407.636	10051.11
2011	5483.864	10288.22
2012	4560.092	10525.33
2013	3636.32	10762.44
2014	2712.548	10999.55
2015	1788.776	11236.66
2016	865.004	11473.77
2017	-58.768	11710.88

From the above table it is clear that the trend value of both the banks are in an increasing trend. If other things remain unchanged total investment of SCBNL to be Rs. 11710.88 million. Which is also the highest under the review period?

The above table reveals that SCBNL 's total investment is higher than that of NABIL through out the trend projection period . It can be said that NABIL has followed the policy of maximizing its investment.

**Figure No. 4.3**  
**Trend values of Investment of NABIL and SCBNL .**



**iv) Analysis of Trend values of Net Profit .**

Under this topic , based on the trend values of net Profit from F/Y 2008/09 to 2012/13 , attempt has been made to forecast the projections for next five years i.e. upto F/Y 2016/17

The following table shows the trend value of net profit from F/Y 2008/2009 to F/Y 2016/17.

**Table No. 4.26**  
**Trend value of Net Profit of NABIL and SCBNL .**

FY	Trend Value of NABIL	Trend Value of SCBN
2008	262.932	443.73
2009	326.824	471.26
2010	390.716	498.79
2011	454.608	526.33
2012	518.5	553.86
2013	582.392	581.39
2014	646.284	608.93
2015	710.176	636.46
2016	774.068	663.99
2017	837.96	691.53

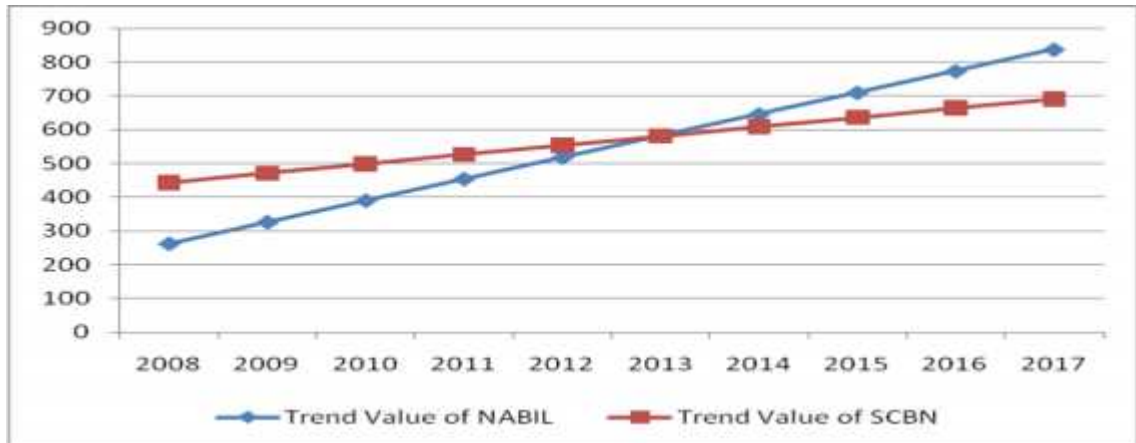
From the above table it is clear that the trend value of both the banks are in increasing trend. The trend value of NABIL will be highest in F/Y 2016/17 i.e. Rs. 837.96 million . In case of SCBNL net profit will be Rs

691.53 million in F/Y 2016/2017 which is the highest under the review period.

Looking at the trend values NABIL would surpass SCBNL in this fiscal itself. It can be said that both the banks have followed the policy of maximizing their net profit .

However , we can draw a conclusion that NABIL has utilized its funds better than SCBNL to earn higher amounts of profit.

**Figure No.4.4**  
**Trend value of Net Profit of NABIL and SCBNL**



### c. Test of Hypothesis.

Under this topic, an effort has been made to test the significance level regarding the parameter of the population on the basis of sample drawn from the population. The following steps have been followed in the test of hypothesis.

- i) Formulating of Hypothesis.
  - o Null Hypothesis
  - o Alternative Hypothesis
- ii) Computing the test statistic.
- iii) Fixing the level of significance.
- iv) Deciding two tailed or one tailed test
- v) Having decision.

#### i) T-test

In this research study the sample is small i.e.,  $N=5$  . Hance, to deal with small sample 't' test is used. Suppose we want to test if two independent samples have been drawn from two normal populations having the same means, the Population variances being equal. We set up the Null hypothesis  $H_0: \mu = \mu_y$  i.e., the sample have been drawn from the normal population , or the sample means x and y do not differ significantly . Under the

assumption that  $\sigma^2 = 6\sigma^2$  i.e., population variances are equal but unknown, the test statistic under  $H_0$  is:

...w.d.f  $n_1+n_2-2$

$$T = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where  $\bar{x} = \frac{\sum x}{n_1}$        $\bar{y} = \frac{\sum y}{n_2}$

and  $s^2 = \frac{1}{n_1 + n_2 - 2} \left( \sum x^2 - \frac{(\sum x)^2}{n_1} + \sum y^2 - \frac{(\sum y)^2}{n_2} \right)$

is an unbiased estimate the common population variance  $\sigma^2$  based on both the samples . By comparing the tabulated value of 't' for  $n_1+n_2-2$  d.f at the desired level of significance. Usually 5 % we reject or retain the null hypothesis  $H_0$ .

**(a) Test of Hypothesis on loan and advances to Total Deposit Ratio of NABIL and SCBNL.**

Let loan and advance to total deposit of NABIL and SCBNL be denoted by x and y respectively.

Calculated  $s^2 = 50.96$  (For detail see Appendix A<sub>22</sub>)

**Solution :**

Null Hypothesis ( $H_0$ ) :  $\mu_1 = \mu_2$  i.e. , there is no significant difference between mean ratio of loan and advance to total deposit of NABIL and SCBNL .

Alternative Hypothesis ( $H_1$ ):  $\mu_1 \neq \mu_2$  i.e. , there is significant difference between mean ratio of loan and advances to total deposit of NABIL and SCBNL .

**Test statistic**

Under  $H_0$ , the test statistic is

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{with } (n_1 + n_2 - 2) \text{ d.f.}$$

$|t| < 1.832$

**Decision :**

The tabulation value of t for 8 d.f. at 5% Level of significance is 2.306. Since calculated 't' is much greater than tabulated 't' it is highly significant . Hence  $H_0 : \mu_1 = \mu_2$  is rejected at 5% Level of significant and we can conclude that there is significant difference between mean ratios of loan and advances to total deposit of NABIL and SCBNL.

**(b) Test of Hypothesis on total Investment to Total Deposits Ratio NABIL and SCBNL.**

Let , the total Investment to total deposit ratio of NAIBL and SCBNL be denoted by x and y.

Calculated  $s^2 = 50.72$  (for detail see Appendix A<sub>23</sub>)

**Solution :**

Null Hypothesis ( $H_0$ ) :  $\mu_1 = \mu_2$  i.e. There is no significant difference between the mean ratio of total Investment to total deposit of NABIL and SCBNL.

Alternative Hypothesis ( $H_1$ ) :  $\mu_1 \neq \mu_2$  i.e., There is significant difference between the mean ratio of total investment to total deposit of NABIL and SCBNL.

**Test Statistic**

Under  $H_0$  , the test statistic is

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{with.....d.f. } X_{n_1} \Gamma n_2 Z_2$$

$|t| > 4.41$

**Decision :**

The tabulation value of t for 8 d. of at 5% level of significance is 2.306 . Since calculated is more than tabulated value of 't' it is highly significant . Hance  $H_0 : \mu_1 = \mu_2$  is accepted at 5% Level of significant and we may conclude that there exists a significant difference between mean ratios of total investment to total deposit of NABIL and SCBNL.

**(c) Test of Hypothesis On Investment if Government Securities to Current Assets Ratio of NABIL and SCBNL.**

Let , the total investment in Government securities to current assets ratio of NABIL and SCBNL be denoted by x and y .

Calculated  $s^2 = 14.52$  ( For detail see Appendix A<sub>24</sub>)

**Solution :**

Null Hypothesis (H<sub>0</sub>) :  $\mu_1 = \mu_2$  i.e., there is no significant difference between the mean ratio of Investment in Government securities to current assets of NABIL and SCBNL.

Alternative Hypothesis (H<sub>1</sub>) :  $\mu_1 \neq \mu_2$  i.e., there is significant difference between the man ratio of Investment in Government securities to current assets of NABIL and SCBNL.

**Test Statistic:**

Under H<sub>0</sub> , the test statistic is

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{fwith.....d.f. } XN_1 \Gamma N_2 Z2^A$$

|t| X7.63

**Decesion:**

The tabulated value of t for 8 d.f. at 5% level of significance is 2.306 . Since calculated 't' is greater than tabulated 't' it is significant . Hence null Hypothesis H<sub>0</sub> :  $\mu_1 = \mu_2$  is rejected at 5% level of significance and we may conclude that there is significant difference between the mean ratios of Investment in Government securities to current assets ratio of NABIL and SCBNL.

**d) Test of Hypothesis on Return on loan and Advance Ratio.**

Let the return on loan and advance of NABIL and SCBNL be denoted by x and y.

$$s^2 = 0.74 \text{ (for detail see Appendix – A}_{25}\text{)}$$

**Solution:**

Null Hypothesis (H<sub>0</sub>):  $\mu_1 = \mu_2$  i.e., there is no significant difference between the mean ratio of return on loan and advances of NABIL and SCBNL.

Alternative Hypothesis (H<sub>1</sub>):  $\mu_1 \neq \mu_2$  i.e., there is no significant difference between the mean ratio of return on loan and advances of NABIL and SCBNL.

**Test Statistic**

Under H<sub>0</sub> the lest statistic is

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{fwith.....d.f. } XN_1 \Gamma N_2 Z2^A$$

|t| X8.84

**Decision:**

The tabulated value of 't' at 5% level of significance is 2.306. Since calculated 't' is much greater than tabulated value of 't' it is highly significant. Hence Null Hypothesis  $H_0: \mu_1 = \mu_2$  i.e., is rejected and Alternative Hypothesis  $H_1 : \mu_1 \neq \mu_2$  is accepted at 5% level of significance and we can conclude that there is significant difference between the mean ratio of return on loan and advances of NABIL and SCBNL.

**(d) Test of Hypothesis on Total Interest Earned to Total Outside Assets:**

Let, the total interest earned to total outside assets of NABIL and SCBNL be denoted by x and y respectively.

Calculated  $s^2 = 0.42$  (for detail see Appendix -A<sub>26</sub>)

**Solution:**

Null Hypothesis ( $H_0$ ):  $\mu_1 = \mu_2$  i.e., there is no significant difference between the mean ratio of total interest earned to total outside assets of NABIL and SCBNL.

Alternative Hypothesis ( $H_1$ ):  $\mu_1 \neq \mu_2$  i.e., there is significant difference between the mean ratio of total interest earned to total outside assets of NABIL and SCBNL.

**Test statistic**

Under to the test statistic is

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{with } (n_1 + n_2 - 2) \text{ d.f.}$$

|t| X4.48

**Decision:**

The tabulated value of 't' at 5% level of significance is 2.306. Since calculated value of 't' is much greater than tabulated value of 't' it is highly significant. Hence, Alternate hypothesis ( $H_0$ ) :  $\mu_1 \neq \mu_2$  is accepted at 5% level of significance and we can conclude that there is a significant difference between total interest earned to total outside assets of NABIL and SCBNL.

**4.4 Manor findings of the Study.**

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. A comprehensive summary of the major findings of this study is presented below.

The main findings of the study derived from the analysis of financial data of NABIL and SCBNL are given below.

#### **4.4.1 Liquidity Ratio.**

The liquidity position of NABIL and SCBNL reveals that:

From the analysis of current ratio it is found that the mean ratio of NABIL and SCBNL is slightly higher than SCBNL. The ratios of both the banks are highly consistent. the mean current ratio of both the banks is greater than 1.

- The mean ratio of cash and bank balance to total deposits of SCBNL is slightly higher than NABIL . SCBNL has better liquidity position than NABIL because of high percentage of liquid assets. This shows SCBNL readiness to meet its customer requirement . On the contrary, a high Liquidity also indicates the inability of the bank to mobilize its current assets. The ratios of NABIL are more consistent than SCBNL.
- The mean ratio of cash and bank balance to current assets of SCBNL is slightly higher than NABIL . This shows SCBNL's greater capacity to meet its customer's daily cash requirement than NABIL . The ratios of NABIL are less variable and more consistent than SCBNL.
- The mean ratio of loan and advances to current assets of NABIL is comparatively higher than SCBNL . The variability of ratios of NABIL ratios are more variable than SCBNL.

From the above findings, we can conclude that the liquidity position of SCBNL is comparatively better than NABIL . It has the highest cash and bank balance to total deposit, cash and bank balance to current assets . SCBNL is in a better position to meet its daily cash requirement. NABIL has a higher current ratio. Which justifies that it is also capable enough to meet its current obligations? SCBNL 's mean investment in Government securities is better than NABIL.

#### **4.4.2 Assets Management Ratio .**

The assets management ratio of NABIL and SCBNL reveals that :

- The mean ratio of loan and advances to total deposit ratio of NABIL is higher than SCBNL. In terms of consistency both have been stable in their ratios.
- The mean ratio of total investment to total deposits of SCBNL is higher than NABIL. The ratios of SCBNL are more consistent and less variable than NABIL .
- The mean ratio of loan and advances to total working fund of NABIL is higher than SCBNL. The ratios of NABIL and SCBNL are more or less consistent.
- The mean ratio of Investment in government securities to total working fund ratio of SCBNL is higher than NABIL. The ratios of SCBNL are less variable and more consistent the NABIL.
- The mean ratio of Investment in shares and debentures to total working fund ratio of NABIL is slightly higher than SCBNL. NABIL ratios are more variable than the of SCBNL.

From the above findings we can conclude that NABIL has been more successful in mobilization of its total deposits and working fund as loan and advances. On the other hand, SCBNL appears to be stronger in mobilization of total deposits and working fund as investment in risk free government securities. NABIL has fared better in purchasing share and debentures of other companies, but both have invested marginal amount under this heading. Both the banks have successfully managed their assets towards different income generation activities.

#### **4.4.3 Profitability Ratios.**

The Profitability ratios of NABIL and SCBNL reveal that,

- The mean ratio of return on total loan and advances of SCBNL has been found to be significantly greater than NABI. The ratios of SCBNL are less variable and more consistent than NABIL.
- The mean ratio or return on total working fund of SCBNL is slightly greater than NABIL. The ratios of NABIL are less consistent and more variable than SCBNL.
- The mean ratio of total interest earned to total working fund of NABIL is higher than SCBNL. NABIL's ratios are more stable and less variable than SCBNL.
- The mean ratio of total interest earned to total operating income of NABIL is higher than SCBNL. Both the banks have been fairly consistent in their ratios.
- The mean ratios of total interest earned to total outside assets of NABIL are higher than SCBNL. The ratios of NABIL are more consistent than SCBNL.

- The mean ratio of total interest paid to total working fund ratio of SCBNL is lower than NABIL. SCBNL ratios are less consistent than NABIL ratios.

On the basis of above, we can conclude that SCBNL has been more successful in maintaining its higher return on loan and advances and Total working fund. On the other hand, NABIL has been more successful in term of earning power w.r.t. total working fund and outside assets. NABIL has been more successful in mobilization of its funds in interest bearing assets to earn higher interest income than SCBNL. SCBNL is in a better position than NABIL from interest payment point of view. NABIL has paid higher interest than SCBNL, whereas the latter seems to have collected its funds from cheaper sources than NABIL.

#### **4.4.4 Risk Ratios**

The Risk ratio of NABIL and SCBNL reveals that,

- The mean liquidity risk ratio of SCBNL is lower than NABIL.
- The mean credit risk ratio of SCBNL is lower than NABIL. Both the banks have been fairly consistent in their ratios.

Based on above findings we can conclude that SCBNL has lower liquidity risk and credit risk than NABIL. NABIL has greater exposure to risk in its financial operations than SCBNL

#### **4.4.5 Growth Ratio**

- The mean growth rate of deposits of SCBNL is significantly higher than NABIL.
- The mean growth rate of total loan and advance of SCBNL is higher than NABIL.
- The mean growth rate of total investment of NABIL is significantly higher than SCBNL
- The mean growth rate of net profit of NABIL is higher than SCBNL.

Based on the above findings, we can conclude that , SCBNL has been more successful in increasing its deposits. loan and advances and investment during the study period , whereas, NABIL

has been more efficient in terms of increasing its net profit . While other banks have initiated a host of measures and schemes to attract Customer deposits, NABIL 's strategy of shedding deposits seems to be off the tune . NABIL needs to seriously rethink its strategy .

#### **4.4.6 Co – efficient of Correlation Analysis**

Co- efficient of correlation analysis between different variables of NABIL and SCBNL reveals that:

- SCBNL has a higher value of coefficient of correlation between deposit and loan and advance than NABIL .
- The co-efficient of correlation between deposits and total investment of SCBNL is slightly higher than NABIL.
- The co-efficient of correlation of correlation between outside assets and net profit in case of NABIL is negative , whereas the same variables in case of SCBNL are highly correlated.
- The co-efficient of correlation between deposit and net profit in case of NABIL to negative , where as SCBNL has a higher value of coefficient of correlation.
- The coefficient of correlation between total working fund and net profit in case of SCBNL is negative, whereas NABIL has a higher value of coefficient of correlation.
- The coefficient of correlation between total working total working fund and net profit in case of SCBNL is negative, whereas the same variables are highly correlated in case of SCBNL.

In Conclusion, we can say that there is a significant relationship between deposit and loan and advances, deposits and total investment, outside assets and net profit, deposits and net profit in case of SCBNL and the relationship is insignificant, deposit and interest earned. Loan and advance and interest paid, total assets and net profit.

Incase of NABIL , there exists a significant relationship between deposits and total loan and advances, deposits and total investment , deposits and interest earned, whereas the relationship is insignificant between deposit and net profit , deposit and interest earned, loan and advances and interest paid , total assets and net profit , outside assets and net profit .

#### **4.4.7 Trend Analysis and projection for next five years.**

The trend analysis of deposits, loan and advances , total investment and net profit and its projection for next five year of NABIL and SCBNL reveals that:

- The deposits of SCBNL has an increasing trend while NABIL's trend values have a fluctuating trend. The total deposit of NABIL is predicted to be 11975.58 million at the end of F/Y 2012/2013 . The deposit collection of SCBNL is much better than NABIL .
- The loan and advance of both the banks have an increasing trend. The total loan and advance of NABIL is predicted to be 12418.69 million and that of SCBNL to be 11032.17 million aat the end of F/Y 2012/2013 . The trend of loan and advances of NABIL is much better compared to SCBNL .
- The total investment of SCBN has an increasing trend while it is exactly the opposite in case of NABIL . SCBNL seems to have a muc-focused policy wit regards to total investment than NABIL .
- The net profit of both the banks are in an increasing trend. The net profit of NABIL and SCBNL is predicted at 838.15 million and 691.50 million respectively by the end of F/Y 2012/2013. The position of NABIL with regard to utilization of the fund to earn profit is better than SCBNL .

#### **4.4.8 Test of Hypothesis.**

The test of significance regarding the parameter of the population , on the basis of sample drawn from the population reveals that:

- There is significant difference between mean ratio of loan and advances to total deposit of NABIL and SCBNL .
- There is no significant difference between mean ratio ot total investment to total deposit of NABIL has SCBNL .
- There is significant difference between the mean ratio of investment in government securities to current assets ratio of NABIL and SCBNL .
- There is significant difference between mean ratio of return on loan and advances of NABIL and SCBNL.
- There lies an insignificant difference between mean ratio of total interest earned to total outside assets of NABIL and SCBNL .

## **CHAPTER –V SUMMARY , COCLUSION AND REOMMENDATION**

### **5.1 SUMMARY**

The economics development of a country depends upon the development of commerce and industry and there is no doubt that banking

promotes the development of commerce because banking itself is the part of commerce. The process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role for rapid economic development.

The economic growth was very slow in earlier years. It has caught its full swing with the restoration of democracy in the country. At present, overall economic growth rate still declines year by year. Reasons behind this decline are the insecure situation faced by industry, decrease in tourist arrivals, drop in the production and export of carpet, garment and Pashmina industry and political situation and Maoists insurgency.

The evolution of the organized financial system in Nepal has more recent history than in other countries of the world. In the Nepalese context, the history of banking is not more than six decades. After the announcement of liberal and free market economic based policy, Nepalese banks and financial sectors have greater network and access to national and international markets. Commercial banks play a vital role which deals with other people's money and stimulate saving by mobilizing idle resources to those sectors having investment opportunities. Modern banks provide various services to their customers in view of facilitating their economic and social life. The objective of the commercial banks is always to earn more profit by investing or granting loans and advances into profitable, secured and marketable sectors. But commercial banks should be careful while performing the credit creation function; the banks should never invest their funds in those securities which are too much fluctuating. Commercial banks must follow the rules and regulations as well as different directions issued by the central bank and ministry of finance while mobilizing the funds or the commercial banks should invest their funds only in those securities which are legal.

## **5.2 CONCLUSION**

- ❖ This study reveals that the current ratio of both the banks is greater than 1, which should be considered satisfactory. The liquidity position of SCBNL is better than NABIL. The cash and bank balance of SCBNL w.r.t. deposits is greater than NABIL. This puts SCBNL in a better position w.r.t. meeting customer requirements than NABIL. In contrast, a high ratio of non-earning cash and bank balance is an indication of a bank's inability to invest its funds in income-generating areas. The cash and bank balance of SCBNL w.r.t. current assets is higher than NABIL. This shows greater capacity of SCBNL to meet its customers' cash requirements but that does not mean NABIL cannot

meet its daily customer cash requirement . SCBNL needs to invest its funds in more productive sectors.

- ❖ SCBNL has invested more portions of its current assets and total working fund in government securities than NABIL . This is due to lack of other secured and profitable investment sector, whereas NABIL has invested more of its fund in other productive sectors.
- ❖ NABIL has been more successful in mobilization of its total deposits and working fund as loan and advances and achieving higher profits in comparison to SCBNL . in contrast, a high ratio is not better from the point of view of liquidity , since loan and advances are less liquid than cash and bank balance.
- ❖ NABIL has invested more of its funds in purchasing share and debentures of others companies than SCBNL .
- ❖ From the point of view of profitability , NABIL seems to be more successful than SCBNL w.r.t profit earning capacity by utilizing available resources. NABIL has also been more successful in terms of interest earning power. It has been more successful in mobilizing its funds in interest bearing assets to earn higher interest income. SCBNL is in a better Position to meet its interest expenses as it has collected its fund from cheaper sources than NABIL.
- ❖ The liquidity risk and credit risk of SCBNL is comparatively lower than NABIL. NABIL has more exposure to risk than SCBNL.
- ❖ SCBNL has been successful in maintaining a steady growth rate on deposits, investments and loan and advances year after year. The average growth rate of net profit of NABIL is higher than SCBNL. SCBNL's growth in deposits can be accounted to its credibility, image and high quality service.
- ❖ From the analysis of coefficient of correlation, we can say that both the banks show positive relationship between deposit and loan and advances, deposits and total investment. There exists a positive relationship between deposits and net profit, outside assets and net profit in case of SCBNL and also between deposits and interest earned in cash of NABIL.

### **5.3 RECOMMENDATIONS.**

On the basis of analysis , findings, following recommendations are made . The banks can make use of these recommendations to

overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment policy.

### **Increase deposits**

SCBNL , backed by its credibility and high quality service has been able to increase its deposit collection consistently . while other banks are coming up with a host of measures to increasing their deposits, NABIL 's strategy of selective shedding of unprofitable deposits seems off the tune . NABIL is recommended to rethink its strategy and collect more deposits. Since the past few years, banks have been targeting depositors through a large variety of deposit schemes and facilities. NABIL , itself introduced a saving plus deposit scheme a few years bank to target high- end depositors, but the growth in deposits does not look convincing. like others, it needs to come up with various incentives, schemes, and facilities to increase deposits. As of new, the minimum balance required to operate an account in Rs. 30000 which is too high .The minimum balance ceiling should be brought down to attract small depositors and entrepreneurs.

Nabil has so far been providing ATM facilities through its own premises. The ATM facilities need further expansion. For this , bank need to identify potential locations.

### **Increase Investment in productive sectors**

SCBNL has given more priority to invest its fund in government securities and depositors, money has been less utilize as loan and advances. Though securities issued by government are risk free but such instruments yield lower interest rate. SCBNL should identify less risky and profitable investment sectors and invest in then. SCBNL has been following a wait, watch and act policy towards investment in productive sectors for a long time despite the uncertain security and political situation in the country, the macro-economic indicators are good. Once the political and security conditions improve, a good turn –around in the economy is expected and unless SCBNL quickly acts it might be left behind in the race.

### **Increase Consumer Lending.**

Currently the size of the consumer leading market is estimated at Rs.10 billion (Himalayan News Services, March 28). Housing and

vehicle finance have become two important and viable sectors with minimum risk . However, the market has not been fully exploited. Retail lending of EBL alone accounts for 20 percentage of the total loan portfolio, which is the highest among the commercial banks in Nepal . The sale of automobiles recorded a business, especially in urban areas is doing much better , thanks to increase their investment in consumer loan sector by offering competitive interest rates.

### **Increasing Investment in share and Debentures**

Both the banks have invested nominal percentage of its funds in shares and debentures of others companies. They are recommended to invest more in shares and debentures of financial and non-financial companies across different sectors including government corporations. This will encourage overall economic development of the country.

### **Increase investment in Deprived and priority sectors**

NRB has directed the banks to extend a certain percentage of loan and advances to the deprived and priority sector. Both the banks are recommended to adhere to the directives issued by NRB and invest more in these sectors . NRB should also speed up its supervision and monitoring in this regard. It should ensure that such directives are put into practice in letter and spirit.

### **Commence Margin Lending.**

The introduction of margin leading by NBL at 6.5% per anum against share of selected companies can be viewed as a new opportunity for investment. Bank sources claim to have already disbursed over Rupees 2.5 billion in a one and a half year period to margin customers. Since NABIL and SCBNL have sound liquidity position and also as their cost of fund is lower , the banks could embark on margin lending after conducting appropriate feasibility study.

### **Effective Portfolio Management**

Portfolio management refers to the allocation of funds into different components of its assets, having different degree of risk and varying rate of return in such a manner that the conflicting goals of

maximum yield and minimum risk can be achieved . The Portfolio condition of the banks should be regularly revised from time to time . Appointing an investment specialist as a Portfolio manager or assigning the task of portfolio management to manager Finance and Planning could prove beneficial .

### **Enhancement of OBS Operating**

The free-based activities include commission, discount and fees. They yield high return to the bank. NABIL is not in a better position with regard to income from off –balance sheet operations as well.

### **Increase Branches in Rural Areas.**

Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country, NABIL and SCBNL have shown no interest to open branches in rural areas. Both the banks are recommended to expand their branches and banking services and facilities in rural areas and communities to accelerate their economic development. NRB should implement policies to encourage banks, which provide extensive service while penalizing those who are not responsive to the banking need of the community, including the underprivileged.