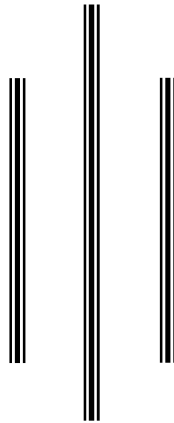


# CREDIT AND INVESTMENT POLICY



*Submitted by :*  
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**RECOMMENDATION**

This is to certify that the thesis

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Credit and Investment policy

Has been prepared as approved by this department in the prescribed format of Faculty  
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*Credit And Investment policy*

And found the thesis to be original work of the student and written according to the  
prescribed format.

We recommend the thesis to be accepted as the partial fulfillment of the requirement  
for

**MASTER OF BUSINESS STUDIES (MBS)**

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled "**CREDIT AND INVESTMENT POLICY**" submitted to office of the dean, faculty of management, Tribhuvan University, is my original research work, which is prepared as the partial fulfillment of the requirement for the master's degree in business studies (MBS), under the supervision of Respected **Mr. BHUBAN GHIMIRE**, thesis supervisor, post Graduate Campus, Biratnagar, T. U.

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## **LIST OF ABBREVIATIONS**

SBL	=	Sunrise Bank Limited
EBL	=	Everest Bank Limited
SCBNL	=	Standard Chartered Bank Nepal Limited
MBL	=	Machhapuchhre Bank Limited
i.e.	=	That is
Ltd.	=	Limited
NRB	=	Nepal Rastra Bank
NPAT	=	Net Profit After Tax
Inv.	=	Investment
Deb <sup>n</sup> .	=	Debenture
S.D	=	Standard Deviation
C.V	=	Co-efficient of Variation
$\bar{X}$	=	Mean
NPBIT	=	Net Profit Before Interest and Tax
NDB	=	Nepal Development Bank
Avg.	=	Average
Govt.	=	Government
Bet <sup>n</sup> .	=	Between
Mgmt.	=	Management

# CHAPTER-1

## Introduction

### 1.1 Back ground

It is reasonably simple exercise to identify a bank as an institution whose essential operation is to accept deposits from public and to lend the save to this public Bank accumulate ideal money from the general public by providing attractive sound interest rate in their deposits and disburse the collected deposit as loan to business organization, industrial sector, agriculture sector and needy people. So we can say that the main task of commercial bank is to mobilize ideal resources in productive areas by collecting it from scattered sources and generate profit. Thus, banks act as intermediaries channeling saving into the investment and consumption through them, banks fulfill the investment requirement of service with the credit needs investors. In this way the bank plays an imperative role in the economy by providing effective service, efficiency towards the attainment of economic development.

Nepal is a very small land locked country with a very low per capital income. Only 49% of the total population is literate and 38 % of total population is below poverty line, which is growing speedily in the country Capital formation is one of the important factors in economic development. It leads to increase in the size of the national output, income and employment, solving the problem of inflation and balance of payment and making the economy free from the burden of foreign debt. The significance and the need of the bank is confining to the urban in the urban areas and no signs of such financial institutions in rural areas where it is most pressing. Bank makes a better use of money and mobilizer the people's saving in productive sectors. It helps in very

aspect of the government. Nevertheless, the bank is the best advisor for all the economic activities of the government.

" Banks are the institutions whose debt usually referred to as bank deposit are commonly accepted final settlement of other people to another by handling over a chequer in common method of payment". (Sayers, 1968:22).

In Nepal commercial banking started with the establishment of "Nepal Bank Ltd." under the Nepal bank act 1994 B.S. Nepal Bank limited is the first modern bank in the history of banks in Nepal. There was a political change in 2007 B.S. After the important event took place in 2012 B.S. This year under the NRB act 2012 B.S., Nepal Rastra Bank was established as a central bank in 2013 B.S. Later on, Rastriya Banijya Bank was established in 2022 B.S. Under the sole ownership of government. After adopting the policy of economic liberalization by government the commercial bank are in increasing numbers. Such kinds of banks are established under the commercial bank Act 2031 B.S. and registered with the recommendation of Nepal Rastra Bank. Commercial bank occupies quite an important place in the framework of every economy because it provides capital for the development of trade, industry and business investing the collected saving as deposits. Besides the, commercial bank renders numerous services to their customers and shareholders in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of country. commercial banks are playing active role and have changed the economic structure of the world. Broadly defined Capital and Assets structures management of commercial bank includes all the policies and approaches designed to obtain funds from deposit and investment. It also provides the flexibility and mobility to the customers because the payment. It can be mostly speedily and efficiently carried out. Commercial banks permitted to accept demands deposits.

" Commercial banks are the largest and most diversified intermediaries in range of assets held and liabilities issues. The feature of commercial banks lies, in fact not in their assets, but in their liabilities". (Garwal, 1993:13)

According to the American Institute of Banking, "Commercial bank is corporations which accepts demand deposits subject to check and make short-term loans to business enterprise regardless of the scope to its other sources". (American Institute of Banking, Principle of Banking Operation, USA, 1972 page-345).

### **1.1.1 Brief Introduction of Banks Under Study**

Four commercial banks Standard Chartered Bank Nepal Ltd. (SCBNL) Sunrise Bank Everest Bank and Machhapuchhre Bank Limited (MBL) have been selected for the study. Since their date of establishment and the size of capital are also quiet similar, these four banks are chosen for study. The brief introduction of these banks is as follows:

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

Nepal Grindlays Bank Ltd. (recently named Standard Chartered Bank Nepal Ltd.) was established in 1987 A.D. as a joint venture bank with 50% of the equity share capital originally owned by ANZ Grindlays Bank, UK that managed and controlled overall activities of the bank. The bank has made significant contribution in the Nepalese banking sector since its inception.

In August 2000 the ownership of ANZ Grindlays Bank, U.K. was transferred to SCB, Australia as Standard Chartered Bank Nepal Ltd. (SCBNL) in Nepal. SCBL holds 50% of total equity capital investment. Out of 35% of the total equity share capital that was held by NBL, Standard Chartered Bank, UK, now has bought 25% The general public holds the remaining 25% shares.

The bank is being managed under joint venture & technical services agreement (T.S.A.) signed between SCB and Nepalese promoters. The Bank has been providing various banking services to its customers through its branches nation wide. It has four branches including its main branch/corporate office in the Kathmandu valley. The bank is well equipped with the latest technology in the banking sector. It leads the Nepalese list in the best 500 banks of Asia as voted by Fortune magazine. It has some of the best banking professionals in the banking industry in Nepal.

Some of the facilities are listed below.

- Tele-banking
- Credit Card facilities
- Foreign Currency Transaction
- Automated Teller Machines
- Personalized & Corporate Financial services
- SWIFT, TELEX
- Western Union Money Transfer
- Money Gram

#### **b. Machhapuchhre Bank Limited**

Machhapuchchhre Bank Limited started its operation in December 10, 2000 as the fourteenth commercial bank and the first commercial bank in the western part of Nepal. The main head office of MBL is located in Pokhara and the corporate office is in Kathmandu. The bank has 10 branches located all over the major parts of the country. The bank also established its branch in Jomsom, Mustang district. The bank aims to serve the people of both urban and rural areas.

The bank has the paid up capital of Rs. 55 million, of which the promoters group, public and employees hold 70%, 25% and 5% of total shares respectively.

The bank has the deposit and loan and advances of Rs. 5, 587 million and Rs 5,130 million respectively. The bank has adopted computerized system in banking. The main software of the bank is called Globus and the bank has the Any Branch Banking System (ABBS). The bank also provides different services such as ATM and electronic banking etc. The bank has been providing loans and advances in various sectors such as agriculture, manufacturing, deprived sector, industry and consumer financial etc.

**c. Sunrise Bank Ltd. :**

Sunrise Bank Ltd. Started its operation in November 20, 2001. the main head office of Sunrise Bank Ltd is located in Kathmandu. It has many branches located all over the major parts of the country. The bank aims to serve the people of both urban and rural areas.

The bank has the paid up capital of Rs.40 million, of which the promoters group public and employees hold 60 %, 30% and 10% of total shares respectively. The bank has the deposit and loan and advances of Rs. 4000 million and Rs. 5000 million respectively. The bank provides different services such as ATM and electronic banking etc. The bank has Adopped computerized system in banking. The bank has been providing various banking services to its customers through its branches nation wide. It has some of the best banking professionals in the banking industry in Nepal.

**Some of the facilities are listed below.**

- Credit card facilities
- Automated teller machines
- Money Gram
- Western union money Transfer
- Foreign currency transaction.
- Tele-banking.

**d. Everest Bank Ltd. :-** Everest bank ltd. Started its operation in 29<sup>th</sup> august 1995 A.D. as a joint venture with Punjab national bank India. It has many branches. The main head office of EBL is located in kathmandu. The bank also established its branch in jhapa and morang. To serve the people of both urban and rural areas in main goal of bank.

In sep-21, 2005, the ownership of Punjab national bank, India was transferred to everest bank ltd. The bank has the paid up capital of Rs. 65 million of which the promoters group public and employees hold 80%, 10% and 10% of total shares respectively. The bank has adopted computerized system in banking. It has the any branch banking system (ABBS). The bank is being managed under joint venture of technical services agreement (T.S.A.) Signed between EBL and Nepalese promoters.

The bank is well equipped with the latest technology in the banking sector. Some of the facilities are given as below.

- Money Gram
- Tele-Banking\
- Foreign Card facilities, currency facilities
- ATM Service
- Swift, TELEX, western union money transfer.
- Loan services.
- Personal of corporate financial services.

## **1.2 Focus of Study**

Banks are the most important and essential financial institution which performs number of internal function in any nation. They are differentiated from other financial institutions, as they can't create credit though they accept deposits, but banks do so. An ordinary banking business consists of changing cash for bank

deposits and bank deposits for cash, transferring bank deposits from one person of corporation to another, giving bank deposits in exchange for bills of exchange, government bonds, the secured or unsecured promises of business to repay etc. However, during the course of its transactions, banks are facing credit risk regarding their investments. The main difficulty in the banking sector in the increasing non-performing assets and as a result they make huge provisions for it. For most banks, loans are the largest and most obvious source of credit risk. However other sources of credit risk exist through the activities of a bank where as loan is an essential aspect of commercial bank. First, income from loan contributes substantially to the revenue and profit of the bank. Second, lending money to people in the community strengthens the community bank relationship. Third, lending money spurs business development and supports a growing economy.

Credit being the most important function of commercial banks, affects overall development of the country. So far as pace of economic development is considered, it is directly related to the quality and quantity of the credit, which is derived from various financial institutions, especially commercial banks in Nepal. Bank should establish overall credit limits at the level of individual borrowers and counter parties, and groups of connected counter parties that aggregate in comparable and meaningful manner different types of exposures, both in the banking and trading book and on and off the balance sheet. It should give recognition to the goals of credit quality, earning and growth. Credit risks strategy of any bank should provide continuity to take in to account the cyclical aspects of any economy and the resulting shifts in the composition and quality of the overall credit portfolio. The strategy should be periodically assessed and amended: it should be viable in the long run through various economic cycles.

Investment operation of commercial bank is also very risky one. For this policy banks have to pay due consideration while formulating

Investment . A good investment policy attracts both borrower and lender, which helps to increase the volume and quality of deposits, loan and investment, and healthy development too.

The main focus of the study is given to the liquidity positions, profitability, investment portfolio, trend analysis, etc. The past performance of commercial bank can easily be compared or analyzed by liquidity, profitability, etc. To predict the future of commercial banks, trend analysis is used. It helps to predict the future performance. The study deals with the comparison of past as well as present performance of commercial banks. While analyzing data various tools are used. The main tools are statistical tools, financial tools, etc.

### **1.3 Statement of the problems**

As we know that the main objectives of commercial bank is profit maximization, which is obtained by mobilization of resource what they have. But if the bank fails to collect adequate deposits then it loses profitable opportunity and hence fails to generate profit. If the bank is not able to collect sufficient deposits it must make some permanent changes in its policies otherwise there will be a question put forth and survival of that particular bank in this high cut throat environment of commercial sector. In order to sufficient number of depositors i.e. from the view point of quantity and quality, the bank should analyze their position in cash collection and trend deposit in their bank. The above quality and quantity means that the depositors should deposit more volume of cash not more number is taken in consideration which implementing cash collection policy.

In the present context, the major concern of most of the banks is regarding their NPA. As per NRB, the NPAS however around 29% in the banking sector. Although most of the commercial banks increase their profits and market share,

the NPA of the banks has been increasing and thus it has created problem to the bank.

Thus the study is mainly concentrated on the following specific problem of commercial banks with special regard to standard Chartered Bank Nepal Ltd., Machhapuchhre Bank Ltd., Sunrise Bank Ltd. and Everest Bank Ltd.

- a) What is the relationship of total deposit on total investment and total net profit of the banks ?
- b) What is the strengths and weakness of the banks in term of liquidity, profitability, leverage and other ratios?
- c) What is the effectiveness of its credit management in mobilizing its resources?
- d) What is the proportion of non-performing assets on total loans and advances of two banks?
- e) What will be the correlation between different financial data and their relationship ?

#### **1.4 Objectives of the Study**

In the present context, the commercial banks have groomed up well providing their customer with effective, reliable and prompt services, which became popular and are covering wide areas of Nepalese economy. The banks with the help of its prompt and reliable services are the need of the people and people are more inclined to these banks then they use to be in the past for the government owned banks. The main objectives of this study are to analyze, examine and interpret the financial position and the effectiveness of credit and investment policy.

The objectives of the study can be summarized as follows:

- I. To analyze the financial strengths and weakness.
- II. To evaluate financial position of banks.

- III. To analyze the bank deposit, mobilization and investment. To evaluate the credit and investment management and its policies.
- IV. To evaluate the effectiveness of the management.
- V. To make relevant suggestions and recommendation for their effective and efficient performance regarding the credit risk.

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

This study mainly fills a research gap on the study of credit and investment policy of Standard Chartered Bank Ltd. In comparison to Machhapuchhre Bank Ltd. As well as sunrise Bank Ltd. In compare to Everest Bank Ltd. The study provides a useful feedback to the policy makers of the bank and also becomes a useful reference for other commercial banks for the formulation of appropriate strategies. Bank have been providing its services to its valuable customers since the date of their commencement. Mostly among various deposit features provide by commercial banks, current deposit is also considered to be important. As we know current deposit cannot be utilized to make medium term and long term investment due to their uncertainty of quantity and time withdrawal. Therefore any amount of cash can be withdrawn during the banking time. So this facility provided is very much helpful to the business man. Beside, this, the study bears much usefulness to various parties, like

To the management

To the shareholders

To the others

The most significant of this thesis is to help shareholders, equity investors and other creditors to identity the productivity of their funds. Similarly other financial agencies like stock exchange and stock brokers are also interested in the performance of bank, as it has been listed in the stock exchange market. Beside, this the study will also help the management of the bank to analyze the

effectiveness of its credit and investment policies of the bank in comparison to its competitors. This study is also significantly helpful to the government and central bank to formulate the new policy, as there are certain loopholes as a result of which the non-performing asset has been regarded as the main problem of the commercial banks these days.

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

This study attempts to evaluate the credit and investment policy of standard Chartered Bank Nepal Ltd. In comparison to Machhapuchhre Bank Ltd. As well as Sunrise Bank Ltd to Everest Bank Ltd. Basically the study has suffered from limitations of aspects following:

- I. The focus of the study is given for four commercial banks among many banks.
- II. Time factor are other major limitation. The study is done in short time and the information of only five years is taken i.e. 2007/08 to 2011/12 A.D. And hence the conclusion has drawn confines only to the above period.
- III. The study is based mainly on secondary data and to some extent on primary data too.
- IV. The study has paid much attention towards the balance sheet, profit and loss account and on the published annual reports too.
- V. The study focuses only on current deposits and lending, so the study may not be sufficient for depth analysis on banking financial performance.
- VI. The study is simply a partial fulfillment of MBS degree and prepared within time constraint, which weakened adequacy of the study.

## **CHAPTER-2**

### **Review of Literature**

#### **2. Introduction**

Review of literature relevant of the credit and investment policy of the commercial banks. Conceptual foundation is the most important part of every study. Without clear concept on subject matter, the study may not go through right way. So the review of literature is taken as an essential part, which works as cornerstone of the study. So that all the past studies and their conclusions may be known and further research can be conducted. It is an integral and mandatory process in research work. Scientific research must be based on passed knowledge. So the previous studies cannot be ignored because they provide the foundation to the present study. The main purpose of reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing research design.

So the review of literature provides the guidelines for further study and helps to avoid the unnecessary duplication in the research work.

#### **2.1 Conceptual review of commercial Banks**

A commercial bank has been defined as an institution, which receives deposits of money or of credit which seeks profit through the extension and sale of its own credit. According to the American Institute of Banking, "Commercial bank in the corporation which accepts deposits subject to check makes short-term loans to business enterprises regardless of the scope of its other sources". (American Institute of Banking, USA, page-345)

The evolution of the organized financial sector in Nepal has a more recent history compared to that in other development South Asian countries.

Commercial bank Act, 2031 B.S. of Nepal has defined commercial bank as, "An organization Which exchanges money, money, accepts deposits, money , accepts deposits, grant loans and performs commercial banking functions and which in not a bank meant for co-operative, agriculture industries of for such specific purpose". The name of commercial bank was first use to indicate that the loans extended were short-term loan to business, though loans later were extended to customer,, governments, and other non-business institutions as well. In general, the assets of commercial bank tend to be more liquid and carry less risk than the assets held by other financial intermediaries.

"Commercial banks are the largest and most diversified intermediaries in range of assets held and liabilities issued. The salient feature of commercial bank lies, in fact, not in their assets, but in their liabilities". (Garhwl. S, 1993, page-13). There is various banking function and no bank can discharge all of these functions. So they specialize on only some of the function such as foreign exchange, financing on industry, financing commerce, financing agricultural sector etc. On the basis of their specialization, bank can be classified as agriculture bank concentrates its function on the development of agriculture sector. It provides loans and other services for its developments. Similarly, industrial bank is related with industrial field. Generally this type of bank advances loan for duration. Commercial banks play and important role in affairs of the economy in various ways. The size and composition of their transactions mirror the economic happening in their country. They are as essential instrument of accelerated growth in a developing economy. In fact, banks are the nerve center of economy and the barometer of economic prosperity. By mobilizing community saving and diverting then in to productive channels, commercial banks expand the tempo and appreciate the value of aggregate economic activity in the economy. A commercial bank has been defined as an institution, which receives deposits of money on of credit and which seeks profits through the

extension and sale of its own credit. Commercial bank Act 2013 B.S. of Nepal has defined commercial bank as, " An organization which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking function and which is not a bank meant for co-operative, agriculture, industries of for such specific purpose". (Commercial Bank Act, 2031 B.S, page -89)

## **2.2 Functions of commercial Bank**

Commercial Banks perform different types of functions to attract more and more customer and they also use modern technology to facilitate its customers. Some of the functions are discussed below.

### **2.2.1 Accepting Deposits**

One of the most important functions of the bank is to collect the deposits from the customer who has little savings. Ban always collects those deposits, which are scattered in our surrounding is a small volume but collectively large. They are also unaware about its profitable use. Banks collects deposits under different types of accounts.

#### **a. Fixed Deposit Account**

Depositors use this account to keep their money in bank for certain duration. Depositors can't withdraw their money before the expiry of stipulated time. Usually rate of interest on this account is always high. Longer the period, higher the interest will be. Fixed deposits can be classified as cumulative fixed deposit, unfixed deposits, and recurring fixed deposits.

#### **b. Current Deposits**

It is another heading under which banks collects deposits. Traders and businessmen generally maintain this type of accounts. Depositors have no limitation on withdrawal under this account. Because traders have to make payment more often, the bank doesn't provide interest on this heading.

### **c. Saving deposits**

The saving deposit bears some interest and is the most preferred ones among the people because it is easy to operate and the account opening balance ranges from NPR 1000 to 5000 depending on the bank's strategy. Banks pay some interest on this account but the interest is lower compared to that of fixed deposits. Further, the bank may impose some restrictions on the withdrawal.

### **d. Call deposits**

This deposits scheme is for those depositors who deposit large volume of balance on their account. The bank provides higher interest rates as per the negotiation with the depositors. The interest is provided on the daily balance so as to attract huge deposits.

## **2.2.2 Advancing of Loans**

The function of the banks is to provide the loans to business, people and traders. Bank in order to mobilize its deposits usually invest its deposits in those areas of the business field where the interest and the principal is secured to be obtained, For this, they charge interest, which is comparatively higher than the various deposit accounts. Thus, the bank is able to sustain with the income it earns from the interest of the loan provided. The loans provided have both short-term and long-term durations depending upon the nature of the loans.

### **a. Money at call**

This type of loan is usually provided to another bank of financial institution for very short period and the bank can call its money back at a very short notice of one day to fourteen day.

**b.** These loans are issued to the borrowers against their current assets like shares, stocks, bonds etc. Bank opens an account depending upon the policy of the bank and credits the entire loan account (as per the sanction limit ) to the account. The borrower is allowed to with draw money as per his requirement from the limit provide to him. The bank charges the interest on the withdrawal amount.

**c. Overdraft**

These loans are provided to those that have credibility in the business and depending upon their business volume and relationship with the bank, banks provide overdraft facility where by the borrower can withdraw the amount to certain limit beyond its deposits. The bank charges interest on the over drawn amount.

**e. Demand Loan/Short –term Loan**

These loans are provided to the borrowers for the purchase of raw materials depending upon the situation and the need of the borrower. The loan is provided once the borrower put forward a request letter and depending upon the need the loan is sanctioned for a period of ranging maximum from 90 to 120 days. The borrower is allowed to utilize the loan from the stipulated time period with interest rate after which the borrower has to settle the dues including the principal amount.

**f. Trust Receipt Loan**

The loan is provided against the LC to the borrowers to bring the goods imported from third countries to their godowns. The time period ranges from 90 to 120 days and the amount of the document value of the LC. The bank charges certain interest rates to the loan provide.

### **g. Term Loans**

This kind of loan is provided to the borrowers for the purchase of plant and machines and it is usually provided for more than one year. The interest is the highest among all the loans because of longer durations and the risk. The loan is repaid on the monthly, quarterly, half of yearly basis depending upon the term and conditions of the banks.

### **2.2.3 Agency Function**

Banks also perform certain functions for and on behalf of their customers, some of which as follows.

#### **a. Remittance of Funds**

Banks help customers in transferring their funds from one place to another by drafts, fax transfers and T.T. similarly, it also provides them the facility of withdrawing the amount transferred by their relatives from abroad through different sources like western Union Money Transfer and Nostro banks.

#### **b. collection of Dividends on Shares**

Bank collects dividends, interest on shares and debentures of their customers.

#### **c. Collection and Payment of Credit Instruments**

Bank collects and pays various credit instruments like cheque, bill of exchange, promissory notes etc.

#### **d. Acting as Trustee and Executor**

Bank preserves the will of their customers and executes them after their death.

#### **e. Purchase and sale of Share and Securities for the Customers**

The bank buys and sells stocks and shares of private companies as well as government securities on behalf of its customers.

### **g. Payment of Insurance Premium**

The bank pays premium of the insurance company on behalf of its customers.

### **h. Acts as a Correspondent**

The bank may also act as a correspondent, agent or a representative of its customers.

## **2.2.4 Other Utility Functions**

In addition to the above mentioned function banks provide other utility function as given below.

- a. Banks provide locker facility to its customers to keep their valuables and important documents. For this, the bank charges some fee for the service provided.
- b. Bank issues travelers cheque to the customers.
- c. Banks issues letter of credit on behalf of their customers certifying their credit worthiness, which is very useful in foreign trade.
- d. Banks also issue credit and debit card to highly credit worthy customers.
- e. Banks provides ABBS facility for the customers so as to facilitate them to withdraw the amount from different branches of the related bank.
- f. Bank also provides ATM facility, which provides services round the clock.

## **2.3 The Business of Banking**

The business of banking consists of borrowing and lending. As in other business, operations must be based on capital, but banks employ comparatively little of their own capital in relation to the total volume of their transactions. The

purpose of capital and reserve accounts in primarily to provide an ultimate cover against losses on loans and investments.

Commercial Bank Act 2013 B.S of Nepal has defined commercial bank as " An Organization which exchanges money, deposit money, accept deposit, grant loans and performs commercial banking function and which is not a bank meant for such specific purpose". (commercial Bank Act, 2031 B.S.)

" The name commercial bank was first used to indicate that the loans extended were short-term loans to business, through loans later were extended to consumers, governments and other non-business institutions as well. In general the assets held by other financial intermediaries". (The New Encyclopedia Britannica, USA, vol.3, page-489).

Commercial banks provide different services for the economic development of the nation to the aspect of the economy. They accumulate scattered resources and divert them into productive channels. On the other hand, obviously they pull ass the scattered saving that they are wasted in unproductive consumption like marriage, gambling, festivals, social economic activities etc and they channel them in productive investment of the other. In absence of these services provided by commercial bank, the development of various sector of the economy would not be It facilitates the commerce of the country. In addition to the acceptance of deposits, cheque, underwriting, purchase and sale of securities, government bonds for customers buy and sale of foreign exchange, the issuance of commercial letter of credit, supply of timely credit and market information, providing remittance facilities and so on. Here the commercial banks are the heart of financial system of the country as they held deposits of millions of people government and business units in their different accounts make funds and government. Thus they are custodians, which undertake to accept the deposit of person, give loan to other in the from of loans advances.

"Principally commercial banks accept deposits and provide loans primarily to business firms there by facilitating the transfer of funds in the economy". (Abro, and Gupta, 1968:64)

"The effort of a commercial bank is to maximize its total net earnings (Profit) by employing its funds productively, which consist mainly of depositor's money withdrawal on demand subject to the rule of the bank relating to withdrawal of deposits, creates difficult problem of assets management for a commercial bank". (Vanish, 1989:254) It is there fore, obvious that the bank will create diversified assets portfolio consisting of different assets of varying maturity pattern that match the several and various source of supply of its funds. The process of commercial bank asset management must ensure the liquidity, solvency and profitability of the institution. Thus, while it would be a folly for a bank to burden itself unduly with the idle cash, it can ill-afford to lock its entire cash holidays by meeting the demand for loans and advances of its borrower customers in its over-anxiety to earn more interest income. In short, the total assets portfolio of a commercial, bank, particularly its loan portfolio, has to be no less diversified than are its deposit liabilities.

## **2.4 Commercial Banks in Nepal**

Bank plays a very important role in the economic development of the country. The importance of banking development, however, was realized only recently. The evolution of the organized financial sector in Nepal has a more recent history compared to than in other developing South Asian countries. The culture of organized banking system began from 1994.B.S. When Nepal Bank ltd, was established that year as semi government enterprises. As regards, the ownership structure was 49% share to general public and remaining 51% belonging to the government at the beginning. Prior to 1994 B.S. the public sector Tej-rath system used to function like a bank. Under this system loans were

given to people only against adequate security of ornaments. This system slosh granted loans to government employees. Such loans were repayable in installments. Thus, the Tejrath system may be considered as the foundation of modern banking in Nepal.

Traditionally, commercial banks used to lend only in the form of short-term loan. The short-term loan constituted major part of the loan portfolio in the past. Nepal Industrial development Corporation (NIDC) was the financial institution that financed the medium-term and long-term to the industries. The pioneer contribution of the Nepal Bank since 1994 B.S. has been quite significant. However, in relation to the magnitude of the tasks involved, the leeway that remains to be made up is still very large. The credit needs of the people are still predominantly met by indigenous money lenders and a very large portion of the productive activity of the community still remains completely outside the preview of the organized banking system. With the onset of economic liberalization process the banking system exhibited remarkable growth in the number of banks. The commercial banks showed conceptual shift in their product offering. The commercial banks also began to enter into lending towards medium and long-term financial need of the borrower.

### **2.4.1 Deposits**

The most important source of commercial bank liquidity is the deposit which bank receives from their depositors comprising of individuals, corporate from of business from their depositors comprising of individuals, corporate from of business enterprises, firms and other including educational institutions, local bodies and government. The depositors of a bank are drawn from all walks of life residing in the urban, semi-urban and rural areas of the country pursuing all sorts of conceivable vocations. " So much important are the deposits as the single source of bank liquidity that bank often engage in keen competition for

deposit mobilization because the capacity to mobilize deposits. But for the large funds which bank receives as deposits, their investment and lending activities would have been on a considerably smaller scale than these, in-fact are". (Gupta, 1992:76)

Banking funding sources and the nature of liability management have undergone profound changes in recent years and continued change and challenges are still on the horizon. "the deposit structures of most banks have been altered significantly due to market declines in traditional demand deposits and rapid increases in the volume of time deposits. The source of most bank are now interest sensitive and increasingly volatile on the one hand, while on the other there is a tough competition between the banks in their investments with lower offer rates to the customers to retain more business from the market. Competitions for funds and investments are intense, so an effective credit management is required for aggressive approach to attract the funds and then invest those funds in safe but profitable earning assets". (Tupta, 1984:85) Bulk of total earning of commercial banks, is derived from of interest in come derived from loans and advance made by the bank to trade, industry and other borrowers and the interest earned from investments made in government and other securities. The extent to which banks can grant loans to their constitutions depend on the amount of liquidity they command and deposits are single largest source of the corporate supply of their total liquidity. Since every commercial bank operates on the fractional reserve system, commercial bank keep only a part of certain percentage of their total deposits in the from of required cash reserves and lend to the borrowers creating the non-liquid income yielding assets in the process of lending. The aggregate deposits of commercial banks are composed of the time and demand (current) deposits. The demand deposits are most volatile and the3se may be withdrawn at any time. Mostly it is the business firm, corporations and other institutions that own these deposits. Time deposits,

fed up fixed deposits and partially by saving deposits, are so-called because these can be withdrawn by their owners only after the expiry of the stipulated period for which these have been made. Such deposits, since these are rendered non-rendered non-liquid, carry higher rate of interest depending upon the period which these deposits can be withdrawn.

### **2.4.2 Credit control and its Objectives**

Credit control is the regulation of credit by the central bank for achieving some definite objectives. Modern economy is a credit economy because credit has come to play a major role in setting all kinds of monetary and business transactions in the modern economic system. Changes in the volume of credit influence the level of business activity and the price level in the economy. Unrestricted credit creation by the commercial banks; by causing wide fluctuations in the purchasing power of money, may pose a serious threat to the national economy. Hence, it becomes necessary for the central bank to keep the creation of credit under control in order to maintain stability in the economic system.

#### **Objectives of Credit Control**

The important objectives of credit control are given below:-

##### **i. Price Stability**

Violent price fluctuation cause disturbances and maladjustments in the economic system and have serious social consequences. Hence, price stability is an important objective of credit control policy. The central bank, by regulating the supply of credit in accordance with the commercial needs of the people, can bring about price stability in the country.

## **ii. Economic Stability**

Operation of the business cycle brings instability in a capitalist economy. The objective of the credit control policy of the central bank should be to eliminate cyclical fluctuations and ensure economic stability in the economy.

## **iii. Maximization of Employment**

Unemployment is economically wasteful and socially undesirable. Therefore economic stability with full employment and high per capita income has been considered as an important objective of credit control policy of a country.

## **iv. Economic Growth**

The main objective of credit control policy in the under developed countries should be the promotion of economic growth within the shortest possible time. These countries generally suffer from the deficiency of financial resources. Hence, the central bank in these countries should solve the problem of financial scarcity through planned expansion of bank credit.

## **v. Stabilization of Money Market**

Another objective of the bank's credit control policy is the stabilization of the money market so as to reduce the fluctuation in the interest rates to the minimum. Credit control should be in such a way that the equilibrium in the demand and supply of money should be achieved at all times.

## **vi. Exchange Rate stability**

Exchange rate stability can also be an objective of credit control policy. Instability in the exchange rates is harmful for the foreign trade of the country. Thus, the central bank in the countries largely dependent upon foreign trade

should attempt to eliminate the fluctuation in the foreign exchange rates through its credit control policy .

### **Methods of Credit Control**

The various methods or influence of credit control used by the central bank can be broadly classified into two categories.

#### **I. Quantitative General Method**

The method used by the central bank to influence the total volume of credit in the banking system without any regard for the use to which it is put , are called quantitative or general methods of credit control . These methods regulate the lending ability of the financial sector of the whole economy and do not discriminate among the various of the economy. The important quantitative methods of credit control are:-

- a. bank rate
- b. open market operations , and
- c. cash-reserve ratio

#### **II. Qualitative or Selection Methods**

The methods used by the central bank to regulate the flows of credit into particular directions of the economy are called qualitative or selective methods of credit control. Unlike the qualitative methods, which affect the total volume of credit the qualitative methods affect types of credit extended by the commercial banks, they affect the composition rather than the size of credit in the economy. The important qualitative or selective methods are.

- a. marginal requirements
- b. regulation of consumer credit
- c. control through directives
- d. credit rationing
- e. moral suasion and publicity , and
- f. direct action

### **2.4.3 Introduction to the Investment**

An investment is a commitment of money that is expected to generate additional money .Every investment entails some degree o frisk it requires a present certain sacrifice for a future uncertain benefit. The word "Investment" brings forth vision of profit risk speculation and wealth. For the uniformed , investing may result in disaster . For the knowledgeable the investment process can be financial rewarding and exciting. Investment in its broadest sense the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and its certain. The reward comes later, if at all and the magnitude is generally uncertain .In some cases the element of time predominates as a government bonds. In other cases risk is the dominant attribute as call options on common stocks. In yet other both time and risk are important for example, share of common stock like individuals. Financial institutions and find it desirable to choose investments appropriate to their needs. Commercial banks saving and loan associations need investments which are almost exclusively payable in dollars. They must also have items which are very safe and free from excessive market price fluctuation because their obligations customarily between 90 and 95 percent of there total assets and a relatively small shrink age in asset values would endanger their solvency.

"The investment policies of most financial institutions are regulated to some extent by public authority and custom and precedent also exert great influence . It must be concluded therefore that the investment policies of financial and endowed institutions are likely to vary greatly with the type of business conducted the legal restrictions imposed and the customers of the business as well as with the preferences of their management ". (christey and cleandenin , 1974:19)

#### **2.4.4 Investment Objective**

The investment objective is to increase systematically the individuals wealth , defined as assets minus liabilities investing that an individual invest money in assets that will generate the desired wealth it is needed for retirement, children's education or other financial goals .Consequently most investments are under taken to provide an increase in wealth .

"It would be an oversimplification to assume that the objective of financial investing is simply to earn the largest possible profit or return on investment. Investment always involves a certain amount of risk, i.e. there is a chance that on investment will yield not a loss. The desire to keep risk under control of minimizing risk probably constitute the main constraints on investor profits. The assumption of in appropriately large financial risk can cause investors to loose sleep, become irritable develop ulcers and suffer other unpleasant consequence of strain. Thus investing has two principal objectives profit maximization and risk minimization". (Francis, 1983:3).

Time is another constraint on the accumulation of wealth investors are amateurs who play the stocks market after work and who simply do not have the time to pursue very opportunity. Inadequate managerial skill can also limit achievement, many people either cannot or do not want to manage a number of different investment . And of course most people have only a limited amount of money that they are able to commit for investment. Most investors try to overcome constraints by confining their investment to those with a minimum risk. By limiting the risk of their investment these investors are usually able to limit he amount of time and effort they must devote to successful investment management. for e.g. U.S treasury bonds are an investment involving little risk of management effort if the investor is willing to earn modest returns . Thus some investors pursue the objective of increasing their wealth at a preferred level

of risk simply by buying the US government bond with the highest interest rate available.

"People usually make investment (i.e. purchase financial assets such as stock or bond) with a future end date in mind .The length of time from the date when the investment is purchased to the final date is called the investor's panning horizon. A financial assets purchased with a very short holding period in mind probably is not really an investment. It may be simply a gamble or speculation". (Ibid, page-3).

In the broad and customary sense of term, an investment is any asset or property right acquired or held for the purpose of conserving capital or earning an income. It simply recognized that saving accounts bond, mortgages life insurance corporate stocks real estate business equities and other earning assets. The investment programming or portfolio planning shows that the proper balancing of any investment serve different purposes. A saving account or saving bond assures the owner of the ready money for emergencies , while common stock or real estate are better protection against inflation .Thus in meeting the investor's fall range of need sound policy will probably require an assortment of assets to provide overall balance.

#### **2.4.4. Concept of portfolio management**

A portfolio is defined as a combination of assets. Portfolio theory deals with the selection of optimal portfolio i.e. portfolio that provide the highest possible rate of return. Since portfolio theory has been developed most thoroughly for financial assets, stock and bonds.

"Every commercial bank gets its funds from sources share capital reserve funds, and deposit from the public. They are liabilities in so far the bank has to return them to their owners. At the same time they are also assets in that they are used to acquire income-yielding assets. A bank has to exercise the utmost care in

the distribution of its assets. This is termed its portfolio policy". (Kothari, 1990:101). on the one hand ,it has to earn maximum profit to meet its expenses and declare dividends to its shareholders . This is the criterion of profitability. on the other hand ,it must have adequate cash to meet the demand of the depositors . Demand are payable on demand. The very existence of the bank depends on the confidence of depositing public. It should maintain adequate cash reserves to honors the cheque presented by customers.

Portfolio management includes the rational planning, selection and supervision of securities to meet an investor's objectives. The most important ingredient in portfolio management in planning .This requires though and preparation in establishing a list of stocks or bonds to meet investor needs .If investors are interested in capital growth they select securities that offer growth to meet their objectives . Investors can select from a with array of securities offering different degree of risk and reward. In selecting for a portfolio many investors seek security of principal stability of income, growth of capital a certain degree of marketability, equality and diversification to protect their assets.

The basic assumption of portfolio analysis is that the most investors dislike risk. Also other thing being most investor would prefer higher return to lower return whenever it is possible to reduce risk without reducing expected returned it follows that investors will attempt to do this. The base of portfolio is well diversification effort spread and minimize risk take the form of diversification .However it is always difficult to find the right kind of diversification and the right reason .

"Portfolio management is not an eyes subject to study. For three reasons, it is difficult for investor to study. First it is an art not a science and its central core of theory is limited in both scope and direct usefulness. Second despite much recent research, the information needed to choose among contending

portfolio policies is lacking. Third like today's clothing, portfolio management is strongly subject to fads and fashions and these tend to obscure and often contradict, sound time-tested approaches". (Christy and Clendenin,1974:645).

The portfolio of commercial bank also shows bills discounted , acceptances and endorsements as per contra furniture and premises etc. bill discounted are also highly liquid earning-assets are included in the money assets These are regarded as self-liquidating automatically out of the sale of goods covered by these bills, i.e. first class bills are self-liquidating papers and are readily transferable to the central bank by way of rediscount without much loss because of the very short maturity duration of these bill . In the bank's assets portfolio , trade bills rank treasury bills slightly inferior in the attribute of liquidity as against the money at call .

In short we can say that 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. Standard chartered bank Nepal Ltd., Machhapuchhre bank Ltd, Sunrise bank Ltd. and Everest bank Ltd. are the best examples of commercial in Nepal that have been able to mobilize the funds in an effective and achieved phenomenal growth and profit year after 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 cash of successful bank and less uniformity in case of emerging bank.

This study comprises of four of the most successful commercial as sample viz., standard chartered Bank Nepal Ltd, Sunrise bank ltd. and Everest bank ltd. Machhapuchhre Bank Ltd. This study is also different from previous studies in view of the time period its 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 baking business . This study given 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 heading have now been accounted under a different heading . For instance , 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 . Gratuity is expensed of on accrual basis and is now a part of personnel expense. Previously, It was the practice of banks to 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-marking process of the concerned banks and other emerging banks in formulating appropriate investment policy. Similarly, this study is a little bit different than previous studies . It may be the first research study in the field of investment policy taking the comparative study of standard chartered Bank Nepal Ltd. with Machhapuchhre Bank Ltd. This study has tried to indicate the effectiveness of credit and investment policy of concerned banks.

## **CHAPTER-3**

### **RESEARCH METHODOLOGY**

#### **1. Introduction**

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 the studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect.

The research tries to perform a well-designed quantitative, and qualitative research in a vary clear and direct way by using both financial and statistical tools.

#### **3.1 Research Design**

This study depends on the secondary data .It includes all the process of collecting verifying and evaluating of post 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 followed.

#### **3.2 population and samples**

There are all together 29 commercial banks listed in Nepal stock Exchange. For this research, those listed banks serve as population .

Among them, only four commercial banks, viz., Standard chartered Bank Nepal Ltd. Sunrise bank ltd. and Everest bank ltd. Machhapuchhre Bank Ltd. have been taken into account for research purpose as samples of the study to

compare their investment policies. The sample selection is based on the purposive sampling method. According to the stock exchange report, 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. These factors 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 redress problem faced by other and can also avoid risks by formulating and implementing sound investment policy.

### **3.3 Sources of Data**

This study is mainly based on secondary data. The secondary sources of data collections are balance sheet, P&L Accounts of concerned banks, Nepal stock Exchange's NEPSE report. other relating data are obtained directly from authorized persons of concerned banks regulating authorities i.e. Ministry of Finance NRB budget speech , published books banks bulletin newspapers , previous studies central library T.U. college libraries , 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 presentation Analysis**

Data presentation and analysis mechanism is the core of any study. This study heavily depends on selected financial and statistical tools to accomplish the objectives of the research work. The data extracted from financial , statistical and accounting tools have been used .These results are than compared with each other to interpret the results. Two kind of tools have been used to achieve the purpose namely: Financial tools and statistical tools.

## **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 ratio involved in analyzing and interpreting the financial statement , In this study , basically four types of ratios have been used which are related to credit and investment policy of banks. They are liquidity Ratio Asset Management Ratios (Activity Ratio) , profitability Ratio and Risk Ratio .

### **i. Liquidity Ratios**

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, 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.

#### **a. 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 deposit account consists of deposits in current account saving account, fixed deposit account money at all deposits margin deposits etc. A higher ratio indicates greater ability of banks to meet their deposits and vice-versa.

**b. 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 capital of firms to meet cash demand . The ratio is calculated by dividing cash and bank balance by current assets Mathematically,

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

**c. 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 liquation 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,

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

**d. 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 investment by total deposits . Mathematically,

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

**e. Investment on government to total working fund ratio :**

This ratio shows the percentage of total working fund invested in government securities. In other words, this ratio measures the extent to which the banks have been successful in mobilizing there 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 indicates 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 total working fund. Mathematically,

$$\text{Investment in Government Securities} = \frac{\text{Investment in Govt. securities}}{\text{Total Working Fund}}$$

#### **f. Investment on shares and debentures to total working fund ratio :**

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

*Investment on shares &*

$$\text{Debentures to total working fund Ratio} = \frac{\text{Investment in Shares \& Debentures}}{\text{Total working fund}}$$

*fund Ratio*

#### **ii. 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 need , commercial banks need to earn sufficient profit . A higher profit ratio shows higher efficiency of a bank.

The following ratio related to investment policy are calculated under profitability ratios:

**a. Return on loan and advance ratio:**

Return on loan 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 capital of a commercial bank. This ratio is calculated by dividing net profit by loan advances. Mathematically,

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

**b. Return on total assets :**

Return on total assets shows the overall profitability of working fund or total assets. Return on working fund ratio is a measuring rod of the profitability with respect investment of banks asset. If the banks total working fund is well managed and utilized efficiently return on such assets will be higher and vice-versa. This ratio is calculated by dividing net profit by total working fund. It is calculated by dividing net profit by total assets. Mathematically,

$$\text{Return on Total Assets} = \frac{\text{Net profit/Loss}}{\text{Total Working Fund}}$$

**c. 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 show how efficiently the banks have mobilized their resources in interest bearing assets. i.e. loan and advance 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,

## Total Interest Earned to Total Operating Income Ratio

$$= \frac{\text{Total Interest Earned}}{\text{Total Operating Income}}$$

### **iii. Risk Ratios**

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 operating makes the bank investment a challenging task. As the notion goes, 'no risk on gain', accept the risk and manage it efficiently.

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

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

$$\text{liquidity risk ratio} = \frac{\text{total cash \& balance}}{\text{Total Deposits}}$$

**b. 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 assets and risk of non-repayment of loan in known as credit risk or default risk credit risk ratio measures the possibility of loan going into default. While sanctioning loans banks measure credit involved in the project. Credit risk is calculated by dividing total loan advances by total assets. Mathematically.

$$\text{Credit risk ratio} = \frac{\text{Total loan \& Advanaces}}{\text{Total Assets}}$$

**iv. Growth Ratios:**

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 growth ratios like groth ratio of total deposit, growth ratio of total investment growth ratio of loan and advances and growth ratio of net profit are directly related to the fund-mobilization and investment of the banks are calculated . so on chapter four the details of the above ratios are explained .

**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 tend analysis etc. have been used for the purpose of investment policy analysis .

**i. 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 tool helps to anagram banks to analyze the relationship between these variables and aids the selected bank to prepare appropriate investment policy relating to deposit collection fund utilization ( loan and advances and Investment ) and profit maximization .

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

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

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

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

$\sum y$  = sum of observation in series y

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

$\sum y^2$  = sum of squared observation in series y

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

This co-efficient of correlation (r) list between - 1 to + 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.

## **ii. Trend analysis:**

Under this topic of deposits loan and advances, investment and net profit of standard chartered bank Nepal Ltd. Sunrise bank ltd. Machhapuchhre bank ltd. and Everest bank ltd. from F/Y 2007/08 to F/Y 2011/12 are analyzed . It also aids in marking forecasting for before and the next few years too . The following trend value analysis has been used in this study.

- i) Trend Analysis of total deposits.
- ii) Trend Analysis of loan and advances.
- iii) Trend Analysis of total investment.
- iv) Trend analysis of net profit.

## **iii. 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 ratio are calculated mathematically,

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

## **iv. Co-efficient of variation (C.V.) :**

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

$$\text{C.V.} = \frac{\text{S.D} * 100\%}{\text{mean}}$$

In order to get meaningful result, the collected data should be analyzed. But it requires suitable tools and techniques that match with topic of the study. By this chapter, one can identify tools and techniques that are used to analyze this dissertation. Basically, in this study, tow types tools are used viz. i. financial tools and ii. statistical tools . To give more concrete result from financial tools statistical tools are used. All the calculation procedures are shown in the appendix of the study. The financial and findings are presented and analyzed in chapter four.

## CHAPTER – 4

### DATA PRESENTATION AND ANALYSIS

#### 4. Introduction

This is an analytical chapter, where an attempt has been made to analyze and evaluate major financial items which have an items on investment management and fund mobilization of SCBNL MBL sunrise bank ltd ever of bank . A number of financial ratios – crucial in evaluating the funds mobilization system of commercial bank have been calculated and analyzed in this chapter.

#### 1. Financial Tools

Financial tools are analyzed and after their interpretations are made. All the ratios could not be studied under these heading. Only those ratios are studied and analyzed which are very much important to evaluate fund mobilization of a commercial bank under this heading secondary data available from the published annual of the banks are into consideration for the study.

The important ratios that are studied for this purpose are analyzed below.

#### i. Liquidity Ratios

liquidity ratio measure the firm's ability to meet its current obligation . The following ratios which measure the liquidity position of bank are calculated.

##### a. Cash and bank balance to total deposit ratio.

This ratio is calculated by dividing cash and bank balance by total deposits (see Appendix 3).

Table 4.1 presents with the cash and bank balance to total deposits ratio of SCBNL, sunrise bank ltd. and Everest bank It .

**Table 4.1: cash and bank balance to total deposit Ratio**

<b>F/Y</b>	<b>MBL</b>	<b>SBL</b>	<b>SCBNL</b>	<b>EV.B.L.</b>
<b>2007/08</b>	14.91	12.0	6.23	7.9
<b>2008/09</b>	13.09	11.5	5.21	8.9
<b>2009/10</b>	10.31	9.5	8.06	8.2
<b>2010/11</b>	13.55	8.9	9.56	10.11
<b>2011/12</b>	14.31	12.1	5.75	11.5
<b>Mean</b>	13.23	10.8	6.96	9.322
<b>S.D</b>	1.8	1.3357	1.6	1.3284
<b>C.V</b>	13.61	12.37	23.00	14.25

The figures shown in table 4.1 above reveal that the cash and bank balance to total deposit of MBL,SCBNL, SBL and EBL are in fluctuating trend . MBL had a high ratio of 14.91% in F/Y 2007/08 and a low ratio of 10.31% in F/Y 2008/09 SBL had a high ratio 12% in F/Y 2007/08 similarly EBL had a high ratio 11.5% in F/Y 2011/12 and low ratio 7.9% in F/Y 2006/07 .

This shows MBL's avg. mean ratio is higher than other remaining three bank It has 13.23% avg. mean from this table we can find MBL's readines to meet customer requirement better than SBL SCBNL and EBL The c.v. of SCBNL is higher than others. so It has more risk than other banks .

**b. Cash and bank balance to current assets ratio:**

This ratio is calculated by dividing cash and bank balance to current assets (see Appendix 5).

Table 4.2 deals with the cash and bank balance to current assets ratio on the basis of available data for this study.

**Table 4.2 : Cash and bank balance to current assets Ratio:**

<b>F/Y</b>	<b>MBL</b>	<b>SBL</b>	<b>SCBNL</b>	<b>EV.B.L.</b>
<b>2007/08</b>	13.45	1.	5.00	15
<b>2008/09</b>	12.59	12	4.42	13
<b>2009/10</b>	10.71	9	7.17	8
<b>2010/11</b>	14.10	8.5	8.51	7.5
<b>2011/12</b>	15.42	7	5.03	13.5
<b>Mean</b>	13.25	9.3	6.03	11.4
<b>S.D</b>	2	1.67	1.56	3.06
<b>C.V</b>	15.09	17.96	26.00	26.8

The figures calculated in table 4.2 show that the cash and bank balance to current assets of both MBL and SCBNL are in a fluctuation trend. MBL has maintained a high ratio of 15.42% in F/Y 2011/12 and a low ratio of 10.71% in 2009/10 similarly, SCBNL has had a high of 8.51 in F/Y 2010/11 anticipating higher cash requirement depositors in this F/Y. It has a low ratio of 4.42% in F/Y 2008/09 The average mean ratio of MBL is higher than SCBNL. The C.V of SCBNL is greater than that of MBL i.e. 26%>15.09%. SBL has maintained high ratio of 10% in F/Y 2007/08 and a low ratio of 7% F/Y 2011/12 similarly EBL has had a high of 15% in F/Y 2007/08 . It has a low ratio of 7.5% in 2010/11. The avg mean ratio of EBL is higher than SBL. The C.V of EBL has higher C.V. than others bank.

## **ii. Assets Management Ratio**

The following ratio measures the assets management ability of MBL and SCBNL.

**a. Loan and advances to total deposit ratio:**

This ratio calculated by dividing total loan and advances by total deposits ( see Appendix 6)

The data tabulated in table 4.3 below show the loan and advances to total deposit ratio of MBL and SCBNL.

Table 4.3: loan and advances to total Deposit Ratio

<b>F/Y</b>	<b>SBL</b>	<b>MBL</b>	<b>SCBNL</b>	<b>EBL</b>
<b>2007/08</b>	70	90.51	36.82	90.5
<b>2008/09</b>	60	90.60	35.97	86.8
<b>2009/10</b>	50	76.88	32.00	40
<b>2010/11</b>	40.5	75.25	31.63	50
<b>2011/12</b>	80	77.84	43.55	95
<b>Mean</b>	60.1	82.22	35.99	72.46
<b>S.D</b>	14	7.7	4.31	22.79
<b>C.V</b>	23.29	9.36	11.97	31.45

The above shows that the loan and advance of total deposit of all banks have a fluctuating trend. MBL had a high ratio of 90.60% in F/Y 2007/08 and a low ratio of 75.25% in F/Y 2010/11 Accordingly SCBNL had a high of 43.55% and a low of 31.63% SCBNL loan and advances to total deposit has had a decreasing trend till F/Y 2010/11 which has dramatically increased in the year 2011/12

SBL had a high ratio of 80% in F/Y 2011/12 and a low ratio of 40.5% in F/Y 2010/11 according to EBL had of 95% in 2011/12 and a low of 40% EBL has higher S.D. than other as well as C.V. that means EBL. Has more risky than other banks .balance S.D is related with risk of business.

**d. Investment on share and debentures to total working fund ratio:**

The investment on share and debentures to total working fund ratio of MBL,SBL,EBL and SCBNL have been shown in table 4.6 below.

Table 4.6: Investment on share and debentures to total working fund Ratio

F/Y	SBL	MBL	EBL	SCBNL
2007/08	0.5	-	0.4	0.058
2008/09	0.6	1.35	0.07	0.060
2009/10	0.1	0.95	0.85	0.053
2010/11	0.02	0.84	0.5	0.047
2011/12	0.05	0.73	0.4	0.060
Mean	0.254	0.77	0.444	0.056
S.D	0.245	0.048	0.2496	0.005
C.V	96.45	6.23	56.22	8.77

MBL has invested slightly higher amount of total working fund on shares and debenture than SCBNL It also has a mean ratio higher than SCBNL It indicates that MBL has been successful in mobilizing it funds as Investment in shares and debenture than SCBNL though the fund invested is marginal in comparison to total investment portfolio in case of both terms of C.V. both the banks has remained fairly consisted though MBL's variability is slightly less than that of SCBNL i.e. (6.32%<8.77%) SBL has higher C.V than others remaining three banks that means It has higher risk. EBL has slightly higher s,d. than SBL.

### iii. Profitability Ratio

To study the Profitability of the investment of these institutions, the given ratios are calculated under profitability ratios:

#### a. Return on loan and advances ratio:

The ratio is calculated by dividing net profit by loan advances.

The information provided in table 4.7 reveals the level of profitability of the investment in relation to return on loan and advances for the study period.

**Table 4.7: Return on loan and Advances Ratio**

<b>F/Y</b>	<b>SBL</b>	<b>MBL</b>	<b>EBL</b>	<b>SCBNL</b>
<b>2007/08</b>	1.85	1.87	2.85	7.58
<b>2008/09</b>	1.7	1.68	0.98	8.41
<b>2008/09</b>	2	2.21	2.18	8.45
<b>2009/10</b>	1.05	1.08	1.06	8.03
<b>2010/11</b>	0.89	0.98	0.80	6.40
<b>Mean</b>	1.49	1.56	1.57	7.77
<b>S.D</b>	0.44	0.53	0.80	0.76
<b>C.V</b>	29.53	33.97	50.96	9.72

This table shows that the ratio of return on loan and advances of SCBNL are better MBL in all F/Y through they have a fluctuating trend MBL's ratios have weaknesses a fluctuation trend MBL has recorded a high ratio of 2.21% in F/Y 2009/10 and a low ratio of . 98% in F/Y 2011/12 similarly SCBNL recorded a high of 8.45% in F/Y 2009/10 and a low of 6.40% in F/Y 2011/12 SBL has recorded a high ratio of 1.85% in F/Y 2007/08 and a low ratio of 0.89% in F/Y 2010/11 and EBL has high ratio of 2.85% in F/Y 2007/08 as well as low ratio of

0.80% in F/Y 2010/11 EBL has higher s.d. and c.v than remaining three banks which represents more risky in company .

**b. Risk Ratio :**

The following risk ratios have been used to measure the risk involved in financial operation of MBL, SCBNL, SBL and EBL

**a. Liquidity risk ratio:**

Liquidity risk is calculated by dividing cash and bank balance by total deposits the information provided in table shows the liquidity risk involved in MBL, SCBNL, EBL and SBL

**Liquidity Risk Radito**

<b>F/Y</b>	<b>SBL</b>	<b>MBL</b>	<b>EBL</b>	<b>SCBNL</b>
<b>2007/08</b>	14	5.5	14.91	6.23
<b>2008/09</b>	13	6	13.09	5.21
<b>2009/10</b>	10	9.8	10.31	8.06
<b>2010/11</b>	12	8	13.55	9.56
<b>2011/12</b>	15	7.5	14.31	5.75
<b>Mean</b>	12.8	7.36	13.23	6.96
<b>S.D</b>	1.72	0.99	1.8	1.62
<b>C.V</b>	13.44	13.45	13.61	23.21

As per the information processed in this table it is seen that MBL has recorded a high ratio of 14.91% and a low ratio of 10.31% similarly SCBNL has recorded a high of 9.56% and a low of 5.21 % similarly SBL has recorded a high ratio of 15% in F/Y 2011/12 and a low ratio of 10% in F/Y 2009 /10 and at last

EBL has recorded a high ratio of 9.8% in F/Y 2009/10 and a low ratio of 5.5% in F/Y 2007/08 .

When mean ratios are taken into consideration It is found that MBL's liquidity risk is lower than of SCBNL i.e.  $13.23 > 6.96$ . MBL has more cash & bank balances than SCBNL to meet its current the fact that the s.d. of SBL has large than other that means its C.V of SBL, EBL, MBL and SCBNL are 13.44 , 13.45 , 13.61 , 23.21 percentages respectively .

#### **d. Growth Ratio**

Under this topic the following ratios which directly related to fund mobilization and invest mint of the banks are calculated,

#### **e. Growth rate of total deposit :**

Given table presents with the comparative facts & figures related to the growth rates of total deposits.

#### **Table**

#### **Growth rate of total deposits (Rs. millions )**

F/Y	MBL		SCBNL		SBL		EBL	
	Total deposits(Rs)	%	Total deposits(Rs)	%	Total deposits(Rs)	%	Total deposits(Rs)	%
<b>2007/08</b>	2754.63	0	15430.05	0	2500	0	3000	0
<b>2008/09</b>	5586.8	103	15835.75	2.63	5500	3.5	4550	4.5
<b>2009/10</b>	7893.3	41	18755.63	18.44	7000	18	6550	20
<b>2010/11</b>	9475.45	20	21161.44	12.83	9000	13.5	8550	15.5
<b>2011/12</b>	11102.24	17	19335.09	8.63	11000	9	12000	7
<b>Mean</b>		36.2		5.05		5.2		6.6
<b>s.d</b>		35.85		7.54		6.2		9.8

In this table Growth rate of total deposits are translated in million rupees MBL has high ratio of deposit (total) Rs. 11102.24 in F/Y 2011/12 and low ratio of total deposit of Rs. 5586.8 in F/Y 2008/09 while SCBNL has high amt. of total deposit is Rs. 21161.44 in F/Y 2010/11 and low amount of total deposit is Rs. 15430.05 in F/Y 2007/08 Again SBL has high amount of total deposit of Rs. 11000 in F/Y 2011/12 and low amount of Rs. 2500 in F/Y 2007/08 similarly at last EBL has high amount of total deposit Rs. 12000 in F/Y 2011/12 and low ratio is Rs. 3000 in F/Y 2007/08.

From this given data we can find Avg. mean of MBL has greater than other remaining three banks as well as standard deviation so MBL has high risk and return than given banks.

#### 5) Growth rate of Net Profit :

The comparative figures to reveal the growth rate of net profit for the under taken time period have been presented in given table.

#### Table

#### Growth rate of net profit (Rs Millions)

F/Y	MBL		SCBNL		EBL		SBL	
	N/P	%	N/P	%	N/P	%	N/P	%
2007/08	46.7	0	430.83	0	45.2	0	44.5	0
2008/09	84.87	81.73	479.21	11.23	80.9	10	75.2	13
2009/10	133.99	57.88	506.93	5.78	130	13	135	5.5
2010/11	76.8	43.28	537.8	6.09	84	2.5	86.3	6.5
2011/12	85.02	10.70	539.2	0.26	86.5	1.5	90	0.5
Mean		21.41		4.67		5.8		5.1
s.d		44.11		3.8		5.13		4.14

From this given data table we can find that the growth rate of net profit of MBL and SCBNL banks has a fluctuating trend. MBL has recorded a high growth rate of 81.73% in F/Y 2007/08 and a low negative growth rate of (43.28%) in F/Y 2010/11 similarly SCBNL has a high growth rate of 11.23% in F/Y 2007/08 and a low growth rate of 0.26% in F/Y 2009/10 overall MBL has more profit table rather than SCBNL.

This mean growth rate of MBL is higher than SCBNL i.e. 21.67% this sudden surge in net profit has made the growth ratios of MBL unstable in comparison to SCBNL the growth rate of net profit of EBL and SBL banks has fluctuating trend EBL has recorded a high growth rate of 15% in 2011/12 and SBL has high growth rate is 13% and low growth rate is 13% and low growth rate is 0.5% in F/Y 2011/12.

## **2. Statistical Analysis**

Under this 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 .

The following section deals with the various statistical analysis of the credit and investment effectiveness of these two projects.

### **i. 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 advances and interest paid total working fund and net profit .

### **Coefficient of correlation between deposits and loans and advances :**

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them .In this study the present researcher has taken deposit as an independent variable denoted by (x) and loans and advances as defendant variable (y) . The main objective of calculatedly 'r' between these 4 variables is to justify whether deposits are significantly used as loan and advances or not .

Table shows the value of 'r'  $r^2$ , p Er . and 6per between total deposits and loans and advances of MBL, SCBNL, SBL , and EBL during the study period (see appendix 13+027)

#### **Table**

#### **Correlation bet<sup>n</sup> deposit and loan and advances .**

<b>Bank</b>	<b>Evaluation Criteria</b>			
	R	R <sup>2</sup>	PER	6PER
<b>MBL</b>	0.9926	0.98	0.0089	0.0534
<b>SCBNL</b>	0.595	0.353	0.1948	1.17
<b>SBL</b>	0.45	0.25	0.04	0.24
<b>EBL</b>	0.39	0.1521	0.025	0.15

In the table the coefficient of correlation between deposits and loans and advances in case of MBL is 0.9926 This indicates that the higher tve relation between them there exists a some what positive relationship between deposit and loan and advances The calculated value of (r<sup>2</sup>) or coefficient of determination is 0.98 This means 98% variation of the dependent variable (loan and advance) has been explained by the independent variable (deposit). When the value of rye 0.9926 is compared with six times the problem error or 6PER i.e. 0.0534, we can say that theirs exists on significant relationship. Between deposits and loan advance between deposits and loan advance because r is greater than six times p. Er. i.e.  $0.9926 > 0.0534$ .

The coefficient of correlation  $r$  between deposits and loan and advances in cash of SCBNL is 0.595. Similarly, the value of coefficient of determination ( $r^2$ ) is found to be 0.353. This shows that 35.30% variation of dependent variable (loan advances) has been explained by the independent variable (deposits). The value of ' $r$ ' is less than six times P.E.r.i.e.  $0.595 > 0.117$ .

From the above analysis, it can be concluded that though both the banks show positive relationship between deposits and loan and advance, the relationship is highly significant in case of MBL and the value of ( $r^2$ ) shows higher percentage of dependency. In case of SCBNL the relationship is less significant and ( $r^2$ ) shows lower percentages of dependency. It indicates MBL has been more successful in utilizing its deposits in a proper manner than SCBNL. The coefficient of correlation on between deposit and loan and advance of SBL and EBL are 0.45 and 0.39 respectively. It is positive relation between deposits of loan to sum up, the increase in loan and advance is not due to effective mobilization of deposits rather other factors have played a greater role in increase in loan and advances. The calculated values of  $r^2$  of EBL and SBL are 0.2025 and 0.1521 respectively. The EBL correlation is co wert than others remaining banks.

### **Coefficient of correlation between deposit and total investment:**

Coefficient of correlation between deposit and total investment measures the degree of relationship between these for variables. Here, the deposit is taken as independent variable (X) and the variable dependent of 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.

Table 4.18 shows the value of ' $r$ ' ( $r^2$ ) Per and 6Per of MBL , SCBNL, EBL and SBL during the study period.

**Table 4.18: Correlation between Deposit and Total Investment**

<b>Bank</b>	<b>Evaluation Criteria</b>			
	<b>r</b>	<b>r<sup>2</sup></b>	<b>P.Er</b>	<b>6P.Er</b>
<b>MBL</b>	0.9653	0.930	0.313	0.1878
<b>SCBNL</b>	0.953	0.908	0.028	0.167
<b>EBL</b>	0.85	0.7225	0.023	0.138
<b>SBL</b>	0.79	0.6241	0.0195	0.117

The coefficient of correlation 'r' between deposits and total investment in case of MBL is 0.9653, which indicates a positive correlation between deposits and total investment. Coefficient of determination ( $r^2$ ) is 0.930. This indicates almost 93% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.9653 is more than six times Per. This means that there is significant relationship between deposits and total investment.

The coefficient of correlation 'r' between deposits and total investment in case of SCBNL is 0.953, which indicates a positive relationship between the two variables. The coefficient of 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 banks show significant relationship between total deposits and total investment. However, the relationship is more significant in case of MBL.

The co-corr. 'r' between deposits and total investment in case of EBL is 0.85, which indicates +ve a correlation between deposits and total investment.  $r^2$  is 0.7225. The co-correlation 'r' of SBL is 0.79.  $r^2$  is 0.6241 which is also +ve

correlation. Between deposit and total invt. The value of r of EBL and SBL are more than sarcomas P.Er. This means that there is significant relationship between deposits and total invt.

Coefficient of correlation between loan and advances and interest paid:

The coefficient of correlation between loan and advances and interest paid measures the relationship between these for variables. Here, loan and advances is independent variable (x) and interest paid is dependent variable (y). The purpose of calculating 'r' between these variable is to establish whether increase in loan advances in loan advances has any role to play in decrease in interest expenses and vice-versa.

**Table 4.21 reveals the values of r,r<sup>2</sup>, Per and 6Per of MBL, SCBNL, EBL and SBL during the period of study.**

**Table 4.21 : Correlation between loan and advances and interest paid**

Bank	Evaluation Criteria			
	r	r <sup>2</sup>	P.Er	6P.Er
<b>MBL</b>	0.96	0.9216	0.350	0.21
<b>SCBNL</b>	0.50	0.25	0.225	1.35
<b>EBL</b>	0.95	0.9025	0.80	4.8
<b>SBL</b>	0.4	0.16	0.10	0.6

The calculated values of 'r' of MBL are positive relationship and SCBNL reflect a negative relationship between loan and advances and interest paid.

The coefficient of determination (r<sup>2</sup>) in case of MBL shows a higher degree of dependency SCBNL show a lower degree of dependency.

The values of Per is considerably greater than 'r' in both the cases, which states that there does not exist any significant relationship between loan and

advances and interest paid during the study period for the above mentioned banks. In conclusion, no relationship could be established between the variables in case of both the banks. The calculated value of 'r' of negative relationship between loan and advances and interest paid. The r<sup>2</sup> incase of EBL shows a higher degree of dependency SBL show a lower degree of dependency. The values of EBL (PEr) is considerably greater tan other banks.

Having completed the basic analysis required for this study, the final and the most important task of the research is to enlist the findings. This will give meaning to the desired results.

On the basis of various categories of analysis adopted in this study, a comprehensive summary of the major findings of this study is presented below:

#### **i. Liquidity ratio:**

The liquidity position of MBL and SCBNL reveals that ----

- The mean ratio of cash and bank balance to total deposits of MBL is slightly higher than SCBNL. MBL has better liquidity position than SCBNL because of high percentage of liquid assets. This shows MBL 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 MBL are more consistent than SCBNL.
- The mean ratio of cash and bank balance to current assets of MBL is slightly higher than SCBNL. This shows MBL's greater capacity to meet its customer's daily cash requirement than SCBNL. The ratios of SCBNL are less variable and more consistent than MBL.
- From the above findings, is it concluded that the liquidity position of MBL is comparatively better than SCBNL. It has the highest cash and

bank balance to total deposit, cash and bank balance to current assets. MBL is in a better position to meet its daily cash requirement. MBL's mean investment in Government securities is better than SCBNL.

- The mean ratio of cash and bank balance to total deposits of SBL is slightly higher than EBL. This shows SBL 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 ratio of SBL are more consistent than EBL.

## **ii. Assets management ratio:**

on the basis of the study of assets mgnt. ratio of MBL, SCBNL , EBL and SBL the results reveal that:

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

From the above findings it may be concluded that SCBNL has been more successful in mobilization of its total deposits and working fund as loan and advances. On the other hand, MBL appears to be stronger in mobilization of

total deposits and working fund as investment in risk free government securities. SCBNL has fared better in purchasing shares 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.

### **iii. Profitability ratios:**

Similarly, the various profitability ratios indicated that:

- The mean ratio of return on total loan and advances of SCBNL has been found to be significantly greater than MBL. The ratios of SCBNL are less variable and more consistent than MBL.
- The mean ratio of return on total working fund of MBL is slightly greater than SCBNL. The ratios of SCBNL are less consistent and more variable than MBL.
- The mean ratio of total interest earned to total operating income of MBL is higher than SCBNL. Both the banks have been fairly consistent in their ratios.
- The mean ratio of return on total loan and advances of SBL has been found to be significantly greater than EBL. The ratios of SBL are less variable and more consistent than EBL.
- The mean ratio of return on total working fund of SBL is slightly greater than EBL.

On these grounds, it may be conclude that SCBNL has been more successful in maintaining its higher return on loan and advances and total working fund. MBL has been more successful in mobilization of its funds in interest bearing assets to earn higher interest income than SCBNL. MBL is in a better position than SCBNL from interest payment point of view. MBL has paid higher interest than SCBNL. It may be concluded than SBL has been more

successful its higher return on loan and advances. SBL has been more successful than EBL.

**Risk ratios:**

The Risk ratios of MBL, SCBNL , EBL and SBL reveal that –

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

Based on above findings, it may be claimed that SCBNL has lower liquidity risk and credit risk than MBL. MBL has greater exposure to risk in its financial operations than SCBNL. SBL has greater exposure to risk in its financial operations than EBL.

**iv. Growth ratio:**

The results related to growth ratios revealed that ---

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

Based on the above findings, MBL has been more successful in increasing its deposits, loan and advances, investment and net profit during the study period. As well as EBL has been great success in increasing net profit, investment, loan and advances during the study period. While other banks initiated a host of measures and schemes to attract customer deposits, SCBNL's strategy of shedding deposits seems to be off the tune. SCBNL needs to seriously rethink its strategy.

#### **v. Co-efficient of correlation analysis:**

The coefficient of correlation analysis between different variables of MBL and SCBNL reveal that ---

- MBL has a higher value of coefficient of correlation between deposits and loan and advances than SCBNL. SBL has a higher correlation between loan and advances and deposit than EBL.
- The co-efficient of correlation between deposits and total investment of MBL is higher than SCBNL. As well as SBL is higher than EBL.
- The co-efficient of correlation between outside assets and net profit in case of MBL 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 MBL. To lower value, where as SCBNL has a higher value of coefficient of correlation.
- The coefficient of correlation between deposits and interest earned in case of SCBNL is negative, whereas MBL has a higher value of coefficient of correlation. EBL has higher value than SBL where SBL is negative correlated.

- The coefficient of correlation between total working fund and net profit in case of MBL is positive , whereas the same variables are highly correlated in case of MBL.

In conclusion, there is significant relationship between deposit and loan and advances, deposits and total investment, outside assets and net profit, deposits and net profit in case of MBL, and the relationship is insignificant, deposit and interest earned, loan and advances and interest paid, total assets and net profit.

Incase of SCBNL, insignificant relationship between deposits and total loan and advances, deposits and total investment, deposits and interest earned, whereas the relationship is significant 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. Incase of SBL, and the relationship is in significant, deposit and interest earned, loan and advances and interest paid, total assets and net profit. Incase of EBL, insignificant relationship between deposits and total loan and advances, deposits and total investment, deposits and interest earned.

## **CHAPTER - 5**

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

This study reveals that the current ratio of both the banks is greater than one, which should be considered satisfactory. The liquidity position of MBL is better than SCBNL. The cash and bank balance of MBL deposits is greater than SCBNL. This puts, MBL in a better position meeting customer requirement than SCBNL. In contrast, a high ratio of non-earning cash and bank balance is an indication of bank's inability to invest its fund in income generation areas. The cash and bank balance of MBL current assets ratio is higher than SCBNL. This shows greater capacity of MBL to meet its customer's cash requirement but that does not mean SCBNL, cannot meet its daily customer cash requirement. MBL 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 MBL. This is due to lack of other secured and profitable investment sector, whereas MBL has invested more of its fund in other productive sectors.

SCBNL has invested more of its funds in purchasing shares and debentures of other companies than MBL.

From the point of view of profitability, SCBNL seems to be more successful than MBL, profit earning capacity by utilizing available resources. 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. MBL is in a better position to meet its interest expenses as it has collected its fund from cheaper sources than SCBNL.

The liquidity risk and credit risk of MBL is comparatively lower than SCBNL. MBL has more exposure to risk than SCBNL.

The liquidity position of EBL is better than SBL. The cash and bank balance of EBL deposits is greater than SBL. This puts , EBL is a better position meeting customer requirement than SBL. In contrast a high ratio of non-earning cash and bank balance is an indication of banks inability to invest its fund in income generation areas. SBL has invested more of its funds in purchasing share and debentures of other companies than EBL.

EBL has been successful in maintaining a steady growth rate on deposits, investments and loan and advances year after year.

From the analysis of co-efficient of correlation we can say that all banks show +ve relationship between deposit and loan and advances and total investment.

## **Recommendation**

On the basis of analysis and findings, following recommendation 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:**

MBL, 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 increase their deposits, SCBNL's strategy of selective shedding of unprofitable deposits seems off the tune. SCBNL 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. MBL, itself introduced a saving plus deposit scheme a few years back to target high-end depositors, but the growth in deposits does not look

convincing. Like EBL has so far been providing ATM facilities through its own premises. The ATM facilities need further expansion. For this, bank needs to identify potential locations. EBL, backed by its credibility and high quality service has been able to increase its deposit collection consistently.

### **Increase investment in productive sectors:**

SCBNL has give more priority to invest its fund in government securities and depositors money has been less utilized 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 them. 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 lending market is estimated at Rs. 10 billion (Himalayan News Services). 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 percent of the total loan portfolio, which is the highest among the commercial banks in Nepal. The sale of automobiles recorded a two-digit growth in the past five years and the real estate business, especially in urban areas is doing much better, thanks to consumer financing four banks EBL, SBL, SCBNL and MBL are recommended to increase their investment in consumer loan sector by offering competitive interest rates.

### **Increase Investment in share and Debentures:**

Four banks have invested nominal percentages of its funds in shares and debentures of other 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. Four 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 lending by NBL at 6.5% per annum against shares 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 MBL, SCBNL, EBL and SBL 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 operation:**

The fee-based activities include commission, discount and fees. They yield high return to the bank. SCBNL is not in a better position with regard to income from off-balance sheet activities. It is recommended to enhance 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. MBL, SBL, EBL and SCBNL have shown no interest to open branches in rural areas. All 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 services while penalizing those who are not responsive to the banking needs of the community, including the underprivileged.

## **Appendix – 1**

### **Profile of Concerned Banks**

#### **Machhapuchhre Bank Limited**

Machhapuchhre Bank Limited started its operation in December 10, 2000 as the fourteenth commercial bank and the first commercial bank in the western part of Nepal. The main head office of MBL is located in Pokhara and the corporate office is in Kathmandu. The bank has 10 branches located all over the major parts of the country. The bank also established its branch in Jomsom, Mustang district. The bank aims to serve the people of both urban and rural areas.

The bank has the paid up capital of Rs. 55 million, of which the promoters group, public and employees hold 70%, 25% and 5% of total shares respectively. The bank has the deposit and loan and advances of Rs. 5,587 million and Rs. 5,130 million respectively. The bank has adopted computerized system in banking. The main software of the bank is called Globus and the bank has the Any Branch Banking System (ABBS). The bank also provides different services such as ATM and electronic banking etc. The bank has been providing loans and advances in various sectors such as agriculture, manufacturing, deprived sector, industry and consumer financing etc.

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

Nepal Grindlays Bank Ltd. (recently named Standard Chartered Bank Nepal Ltd.) was established in 1987 A.D. as a joint venture bank with 50% of the equity share capital originally owned by ANZ Gridnlays Bank, UK that managed and controlled overall activities of the bank. The bank has made significant contribution in the Nepalese banking sector since its inception.

In August 2000, the ownership of ANZ Grindlays Bank, U.K. was transferred to SCB, Australia. Since then, the bank is being managed and controlled by SCBL Australia, as Standard Chartered Bank Nepal Ltd. (SCBNL) in Nepal. SCBL holds 50% of total equity capital investment. Out of 35% of the total equity share capital that was held by NBL, Standard Chartered Bank, UK, now has bought 25%. The general public holds the remaining 25% shares.

The bank is being managed under joint venture & technical services agreement (T.S.A.) signed between SCB and Nepalese promoters. The bank has been providing various banking services to its customers through its branches nation wide, it has four branches including its main branch/corporate office in the Kathmandu valley. The bank is well equipped with the latest technology in the banking sector. It leads the Nepalese list in the best 500 banks of Asia as voted by Fortune magazine. It has some of the best banking professionals in the banking industry in Nepal.

**Some of the facilities are listed below.**

- Tele-banking
- Credit card facilities
- Foreign currency transaction
- Automated Teller Machines
- Personalized & Corporate Financial Services
- SWIFT, TELEX
- Western Union Money Transfer
- Money Gram

**The present capital structure of SCBNL is shown below.**

**(Rs. In million)**

Authorized equity share capital	339.54
Issued Capital	339.54
Paid up Capital	339.54

### **Sunrise Bank Ltd.**

Sunrise Bank Ltd. Started its operation in November 20, 2001. The main head office of Sunrise Bank Ltd is located in Kathmandu. It has many branches located all over the major parts of the country. The bank aims to serve the people of both urban and rural areas.

The bank has the paid up capital of Rs. 40 million, of which the promoters group public and employees hold 60%, 30% and 10% of total shares respectively. The bank has the deposit and loan and advances of Rs. 4000 million and Rs. 5000 million respectively. The bank provides different services such as ATM and electronic banking etc. the bank has adopted computerized system in banking. The bank has been providing various banking services to its customers through its branches nation wide. It has some of the best banking professionals in the banking industry in Nepal.

#### **Some of the facilities are listed below.**

- Credit card facilities
- Automated Teller machines.
- Money Gram
- Western union money transfer
- Foreign currency transaction
- Tele- banking

## **Everest Bank Ltd**

Everest Bank Ltd. Started its operation in 29<sup>th</sup> August 1995 A.D. as a joint venture with Punjab national bank, India. It has many branches. The main head office of EBL is located in Kathmandu. The bank also established its branch in Jhapa and Morang. To serve the people of both urban and rural areas is main goal of Bank.

In Sep. 21, 2005, the ownership of Punjab national bank, India was transferred to Everest Bank Ltd. The bank has the paid up capital of Rs. 65 million, of which the promoters group, public and employees hold 80%, 10% and 10% of total shares respectively. The bank has adopted computerized system in banking. It has the any branch banking system (ABBS). The bank is being managed under joint venture of technical services agreement (T.S.A.) signed between EBL and Nepalese promoters.

The bank is well equipped with the eatert technology in the banking sector. Some of the facilities are given as below.

- Money Gram
- Tele-Banking
- Foreign card facilities, currency facilities
- ATM Service
- Swift, TELEX, western union money transfer.
- Loan services
- Personal & corporate financial services

## Appendix -2

### *MACHHAPUCHHRE BANK LTD.*

(Rs in million)

S.N.	F/Y	2007/08	2008/09	2009/10	2010/11	2011/12
1.	Current Assets	3053.85	5807.57	7600.83	9107.97	10300.89
2.	Current Liabilities	107.30	163.55	147.78	257.36	110.51
3.	Cash and Bank Balance	410.75	731.73	813.92	1284.08	1588.33
4.	Total Investment	274.40	468.61	1190.83	1278.47	1443.55
5.	Total Deposit	2754.63	5586.80	7893.30	9475.45	11102.24
6.	Loan and Advances	2493.11	5061.43	6068.43	7129.89	8642.32
7.	Investment in Government Securities	71.32	127.33	904.47	951.27	827.35
8.	Investment on Shares and Debn.	-	9.29	9.29	9.29	9.29
9.	Total working fund	579.38	688.84	976.07	1101.73	1279.80
10.	Total Interest earned	215.21	381.93	563.36	694.48	796.60
11.	Total Interest paid	113.57	187.02	288.66	397.72	407.92
12.	Net profit	46.70	84.87	133.99	76.80	82.02
13.	Operating Income	236.59	411.73	645.61	806.86	898.18
14.	Total Outside Assets	3.50	4.35	12.53	158.25	218.22

### Appendix -3

#### STANDARD CHARTERED BANK NEPAL LTD.

(Rs in million)

S.N.	F/Y	2007/08	2008/09	2009/10	2010/11	2011/12
1.	Current Assets	19224.20	18663.02	21101.94	23778.25	22086.48
2.	Current Liabilities	18245.18	17207.63	19631.60	22146.32	20311.16
3.	Cash and Bank Balance	961.05	825.26	1512.30	2023.16	1111.11
4.	Total Investment	9559.18	9275.88	10357.68	11360.33	9702.50
5.	Total Deposit	15430.05	15835.75	18755.63	21161.44	19335.09
6.	Loan and Advances	5681.35	5696.18	60001.16	6693.86	8420.86
7.	Investment in Government Securities	4811.01	5784.72	6722.83	7948.22	7203.06
8.	Investment on Shares and Debn.	11.20	11.20	11.20	11.20	13.35
9.	Total working fund	19357.20	18775.27	21304.84	23925.68	22171.24
10.	Total Interest earned	1242.92	1013.64	1001.36	1042.18	1058.67
11.	Total Interest paid	474.40	299.86	255.15	275.81	254.13
12.	Net profit	430.83	479.21	506.93	537.80	539.32
13.	Operating Income	1640.26	1446.81	1503.60	1521.16	1573.32
14.	Total Outside Assets	15240.53	14974.06	16357.84	18054.19	18123.42

## Appendix -4

### EVEREST BANK LTD.

(Rs in million)

S.N.	F/Y	2007/08	2008/09	2009/10	2010/11	2011/12
1.	Current Assets	20000	16850	19101.94	22780.25	22000
2.	Current Liabilities	16245	17000	17631.60	19146.32	22105.23
3.	Cash and Bank Balance	310.75	730.60	615.82	1200	1500.33
4.	Total Investment	275	470.92	1280.63	1380.57	1400
5.	Total Deposit	11330.60	10835.75	13856.42	18160.90	18300.08
6.	Loan and Advances	2400.12	4960	6136	7229.89	8852
7.	Investment on Shares and Debn.	-	8.30	8.30	8.30	8.30
8.	Total Interest earned	200	300	550	690.50	786.50
9.	Total Interest paid	112	185.30	285.01	300.75	412.82
10.	Net profit	330.60	405.29	500.70	375	440.30
11.	Operating Income	236.59	411.70	645.70	506.87	800
12.	Total Outside Assets	4050	4.25	8.95	158.20	318.30

**Appendix -5**  
**SUNRISE BANK LTD.**

**(Rs in million)**

<b>S.N.</b>	<b>F/Y</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
1.	Current Assets	2053.75	5110.2	6700.73	9200	11700.29
2.	Current Liabilities	105.4	160.55	137.87	250.40	105.25
3.	Cash and Bank Balance	405.25	730.75	800.82	1200.08	1547.43
4.	Total Investment	264	460.62	1101.83	1270.57	1400.55
5.	Total Deposit	2054.63	4580.60	5680.30	8586.20	8202.42
6.	Loan and Advances	2490.12	5000.25	5025.43	7000.70	8010.43
7.	Investment on Shares and Debn.	-	7.30	7.30	7.30	7.30
8.	Total Interest earned	205.21	360	363.46	509.58	702.3
9.	Total Interest paid	112	180.5	270.23	487.56	208.92
10.	Net profit	36.70	80.80	105.89	56.70	75.02
11.	Operating Income	205.60	410.5	601.61	805.8	798
12.	Total Outside Assets	2.5	3.50	10.50	109.75	202.22

## Appendix -6

### *MACHHAPUCHHRE BANK LTD*

#### Cash and Bank Balance to current Asset

(Rs in million)

<i>F/Y</i>	<i>Cash &amp; Bank Balance</i>	<i>Current Asset</i>	<i>Percentage</i>
2007/08	410.75	3053.85	13.45
2008/09	731.13	5807.57	12.59
2009/10	813.92	7600.83	10.71
2010/11	1284.08	9107.97	14.10
2011/12	1588.33	10300.89	15.42

### *STANDARD CHATERED BANK NEPAL LTD*

#### Cash and Bank Balance to current Asset

(Rs in million)

<i>F/Y</i>	<i>Cash &amp; Bank Balance</i>	<i>Current Asset</i>	<i>Percentage</i>
2007/08	961.05	19224.20	5.00
2008/09	825.26	18663.20	4.42
2009/10	1512.30	21101.94	7.17
2010/11	2023.16	23778.25	8.51
2011/12	1111.11	22086.48	5.03

## Appendix -7

### *MACHHAPUCHHRE BANK LTD*

#### **Total Interest Earned to Total Operating Income Ratio**

(Rs in million)

<i>F/Y</i>	<i>Total Interest Earned</i>	<i>Total Operating Income</i>	<i>Percentage</i>
2007/08	215.21	236.59	90.96
2008/09	381.93	411.73	92.76
2009/10	563.36	645.61	87.26
2010/11	694.48	806.86	86.07
2011/12	796.60	898.18	88.69

### *STANDARD CHARTERED BANK NEPAL LTD*

#### **Total Interest Earned to Total Operating Income Ratio**

(Rs in million)

<i>F/Y</i>	<i>Total Interest Earned</i>	<i>Total Operating Income</i>	<i>Percentage</i>
2007/08	1242.92	1640.26	75.78
2008/09	1013.64	1446.81	70.06
2009/10	1001.36	1503.60	66.60
2010/11	1042.18	1521.16	68.51
2011/12	1058.67	1573.32	67.29

## Appendix - 8

### *EVEREST BANK LTD*

#### **Total Interest Earned to Total Operating Income Ratio**

(Rs in million)

<i>F/Y</i>	<i>Total Interest Earned</i>	<i>Total Operating Income</i>	<i>Percentage</i>
2007/08	200	236.59	84.53
2008/09	300	411.70	72.87
2009/10	550	645.70	85.18
2010/11	690.50	506.87	136.23
2011/12	786.50	800	98.31

### *SUNRISE BANK LTD*

#### **Total Interest Earned to Total Operating Income Ratio**

(Rs in million)

<i>F/Y</i>	<i>Total Interest Earned</i>	<i>Total Operating Income</i>	<i>Percentage</i>
2007/08	205.21	205.60	99.81
2008/09	360	410.5	87.69
2009/10	363.46	601.61	60.41
2010/11	509.58	805.8	63.24
2011/12	702.3	798	88.008

## Appendix - 9

### *EVEREST BANK LTD*

#### Cash and Bank Balance to current Asset

(Rs in million)

<i>F/Y</i>	<i>Cash &amp; Bank Balance</i>	<i>Current Asset</i>	<i>Percentage</i>
2007/08	310.75	20000	
2008/09	730.60	16850	
2009/10	615.82	19101.94	
2010/11	1200	22780.25	
2011/12	1500.33	22000	

### *SUNRISE BANK LTD*

#### Cash and Bank Balance to current Asset

(Rs in million)

<i>F/Y</i>	<i>Cash &amp; Bank Balance</i>	<i>Current Asset</i>	<i>Percentage</i>
2007/08	405.25	2053.75	19.73
2008/09	730.75	5110.2	14.29
2009/10	800.82	6700.73	11.95
2010/11	1200.08	9200	13.04
2011/12	1547.43	11700.29	13.23

## Appendix - 10

### *MACHHAPUCHHRE BANK LTD*

#### Investment in Share & Debentures to Total Working fund Ratio

(Rs in million)

<i>F/Y</i>	<i>Investment in Share &amp; Debenture</i>	<i>Total working Fund</i>	<i>Percentage</i>
2007/08	-	579.38	-
2008/09	9.29	688.84	0.0135
2009/10	9.29	976.07	0.0095
2010/11	9.29	1101.73	0.0084
2011/12	9.29	1279.80	0.0073

### *STANDARD CHARTERED BANK NEPAL LTD*

#### Investment in Share & Debentures to Total Working fund Ratio

(Rs in million)

<i>F/Y</i>	<i>Investment in Share &amp; Debenture</i>	<i>Total working Fund</i>	<i>Percentage</i>
2007/08	11.195	19357.2	0.058
2008/09	11.195	18775.27	0.060
2009/10	11.195	21304.84	0.053
2010/11	11.195	23925.68	0.047
2011/12	13.348	22171.24	0.060

## Appendix - 11

### *MACHHAPUCHHRE BANK LTD*

#### Return on Total Working Fund Ratio

(Rs in million)

<i>F/Y</i>	<i>Net profit</i>	<i>Total working Fund</i>	<i>Percentage</i>
2007/08	46.70	579.38	08.06
2008/09	84.87	688.84	12.32
2009/10	133.99	976.07	13.73
2010/11	76.80	1101.73	06.97
2011/12	85.02	1279.80	06.64

### *STANDARD CHARTERED BANK NEPAL LTD*

#### Return on Total Working Fund Ratio

(Rs in million)

<i>F/Y</i>	<i>Net profit</i>	<i>Total working Fund</i>	<i>Percentage</i>
2007/08	430.83	19357.2	2.23
2008/09	479.21	18775.27	2.55
2009/10	506.93	21304.84	2.38
2010/11	537.8	23925.68	2.25
2011/12	539.20	22171.24	2.43

## Appendix - 12

### *MACHHAPUCHHRE BANK LTD*

#### **Total Investment to Total Deposit Ratio**

(Rs in million)

<i>F/Y</i>	<i>Total Investment</i>	<i>Total Deposit</i>	<i>Percentage</i>
2007/08	274.40	2754.63	09.96
2008/09	468.61	5586.80	08.39
2009/10	1190.83	7893.30	15.09
2010/11	1278.47	9475.45	13.49
2011/12	1443.55	11102.24	13.00

### *STANDARD CHARTERED BANK NEPAL LTD*

#### **Total Investment to Total Deposit Ratio**

(Rs in million)

<i>F/Y</i>	<i>Total Investment</i>	<i>Total Deposit</i>	<i>Percentage</i>
2007/08	9559.18	15430.05	61.95
2008/09	9275.88	15835.05	58.58
2009/10	10357.68	18755.63	55.22
2010/11	11360.33	21161.44	53.68
2011/12	9702.55	19335.09	50.18

## Appendix - 13

### *MACHHAPUCHHRE BANK LTD*

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

(Rs in million)

<i>F/Y</i>	<i>Cash &amp; Bank Balance</i>	<i>Total Deposit</i>	<i>Percentage</i>
2007/08	410.75	2754.63	14.91
2008/09	731.13	5586.80	13.09
2009/10	813.92	7893.30	10.31
2010/11	1284.08	9475.45	13.55
2011/12	1588.33	11102.24	14.31

### *STANDARD CHARTERED BANK NEPAL LTD*

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

(Rs in million)

<i>F/Y</i>	<i>Cash &amp; Bank Balance</i>	<i>Total Deposit</i>	<i>Percentage</i>
2007/08	961.05	15430.05	6.23
2008/09	825.26	15835.75	5.21
2009/10	1512.30	18755.63	8.06
2010/11	2023.13	21161.44	9.56
2011/12	1111.11	19335.09	5.75

## Appendix - 14

### *MACHHAPUCHHRE BANK LTD*

#### Return on Loan and Advance Ratio

(Rs in million)

<i>F/Y</i>	<i>Net profit</i>	<i>Loan and Advances</i>	<i>Percentage</i>
2007/08	46.70	2493.11	1.87
2008/09	84.87	5061.43	1.68
2009/10	133.99	6068.43	2.21
2010/11	76.80	7129.89	1.08
2011/12	85.02	8642.32	0.98

### *STANDARD CHARTERED BANK NEPAL LTD*

#### Return on Loan and Advance Ratio

(Rs in million)

<i>F/Y</i>	<i>Net profit</i>	<i>Loan and Advances</i>	<i>Percentage</i>
2007/08	430.83	5681.18	7.58
2008/09	479.21	5696.18	8.41
2009/10	506.93	6000.16	8.45
2010/11	537.80	6693.86	8.03
2011/12	539.20	8420.86	6.40

APPENDIX – 15

EVEREST BANK LTD.

Total Deposit to Net Profit Ratio

(Rs. In Million)

<b>F/Y</b>	<b>Total Deposit</b>	<b>Net Profit</b>	<b>Percentage</b>
2007/08	11330.60	330.60	2.38
2008/09	10835.75	405.29	3.74
2009/10	13856.42	500.70	6.31
2010/11	18160.90	375	2.06
2011/12	18300.08	440.30	2.41

APPENDIX – 16

SUNRISE BANK LTD.

Total Deposit to Net Profit Ratio

(Rs. In Million)

F/Y	Total Deposit	Net Profit	Percentage
2007/08	2054.63	36.70	1.79
2008/09	4580.60	80.80	1.76
2009/10	5680.30	105.89	1.86
2010/11	8586.20	56.70	0.67
2011/12	8202.42	75.02	0.95

**APPENDIX – 17**

**SCBNL**

**Correlation between Total Deposit and Net Profit**

**(Rs. In Million)**

F/Y	Loan & Advance (X)	Interest Paid (Y)	$X = (x - \bar{x})$	$x^2$	$Y = (y - \bar{y})$	$y^2$	XY
2007/08	2400.12	112	-3515.48	12358599.63	-147.18	21661.95	517408.4
2008/09	4960	185.30	-955.60	913171.36	-73.88	5458.2544	70599.728
2009/10	6136	285.01	220.4	48576.16	25.83	667.19	5692.9
2010/11	7229.89	300.75	1314.29	1727358.204	41.57	1728.0649	54635.00
2011/12	8852	412.82	2936.40	8622444.96	153.64	23605.2496	451148.50
	$\sum X =$ 29578.01	$\sum Y =$ 1295.9		$\sum X^2 =$ 23670150.31		$\sum Y^2 =$ 53120.7	$\sum XY =$ 1099484.50

Here, N= 5

$$\bar{X} = \frac{\sum X}{N} = \frac{29578.01}{5} = 5915.60$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{1295.9}{5} = 259.18$$

We have

$$\sum XY = 1099484.5$$

$$\sum X^2 = 23670150.31$$

$$\sum Y^2 = 53120.7$$

Calculation of correlation coefficient (r):

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$r = \frac{318999.93}{\sqrt{23670150.31} \sqrt{53120.7}} = 0.9805$$

$$r^2 = 0.9613$$

Calculation of Probable error,

$$P.Er. = 0.6745 \frac{1 - r^2}{\sqrt{N}} = 0.132$$

$$6 P.Er. = 0.79$$

**APPENDIX – 18**

**SCBNL**

**Correlation between Total Deposit and Net Profit**

(Rs. In Million)

F/Y	Total Deposits (X)	Net Profit (Y)	$X=(x-\bar{x})$	$x^2$	$Y=(y-\bar{y})$	$y^2$	XY
2007/08	1543.05	430.83	-2673.54	7147816.13	-67.97	4619.92	181720.51
2008/09	15835.75	479.21	-2267.84	5143098.27	-19.59	383.77	44426.98
2009/10	18755.63	506.93	652.04	425156.16	8.13	66.10	43099.84
2010/11	21161.44	537.80	3057.85	9350446362	39	1521	119256.15
2011/12	19335.09	539.20	1231.50	1516592.25	40.4	1632.16	49752.60
	$\sum X =$ 90517.96	$\sum Y =$ 2493.97		$\sum X^2 =$ 22066517.18		$\sum Y^2 =$ 8222.95	$\sum XY =$ 318999.93

Here, N= 5

$$\bar{X} = \frac{Ex}{N} = \frac{90517.96}{5} = 18103.59$$

$$\bar{Y} = \frac{EY}{N} = \frac{2493.97}{5} = 498.80$$

We have

$$\sum XY = 318999.93$$

$$\sum X^2 = 22066517.18$$

$$\sum Y^2 = 8222.95$$

Calculation of correlation coefficient (r):

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$r = \frac{318999.93}{\sqrt{22066517.18} \sqrt{8222.95}} = 0.75$$

$$r^2 = 0.56$$

Calculation of Probable error,

$$P.Er. = 0.6745 \frac{1-r^2}{\sqrt{N}} = 0.132$$

$$6 P.Er. = 0.79$$

APPENDIX – 19

MACHHAPUCHHRE BANK LTD.

Correlation between Loan and Advances and Interest Paid

(Rs. In Million)

F/Y	Total Deposits (X)	Net Profit (Y)	$X = (x - \bar{x})$	$x^2$	$Y = (y - \bar{y})$	$y^2$	XY
2007/08	2493.11	113.57	-3385.92	11464454.25	-165.41	27360.46	560065.03
2008/09	5061.43	187.02	-817.60	668469.75	-91.96	8456.64	75186.50
2009/10	6068.43	288.66	189.40	35872.36	9.68	93.70	1833.39
2010/11	7129.89	397.72	1250.86	1564650.74	118.74	14099.19	148527.12
2011/12	6842.32	407.92	2763.29	7635771.62	128.94	16625.52	356298.61
	$\sum X =$ 29395.18	$\sum Y =$ 1394.89		$\sum X^2 =$ 21369218.72		$\sum Y^2 =$ 66635.51	$\sum XY =$ 1141910.65

Here, N= 5

$$\bar{X} = \frac{\sum X}{N} = \frac{29395.18}{5} = 5879.03$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{1394.89}{5} = 278.98$$

We have

$$\sum XY = 1141910.65$$

$$\sum X^2 = 21369218.72$$

$$\sum Y^2 = 66635.51$$

Calculation of correlation coefficient (r):

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$r = \frac{1141910.65}{\sqrt{21369218.72} \sqrt{66635.51}} = 0.96$$

$$r^2 = 0.9216$$

Calculation of Probable error,

$$P.Er. = 0.6745 \frac{1 - r^2}{\sqrt{N}} = 0.0350$$

$$6 P.Er. = 0.21$$

**APPENDIX – 20**  
**SUNRISE BANK LTD.**

**Correlation between Total Deposit and Total Investment**

(Rs. In Million)

F/Y	Total Deposits (X)	Net Profit (Y)	$X = (x - \bar{x})$	$x^2$	$Y = (y - \bar{y})$	$y^2$	XY
2007/08	15430.05	9559.18	-2673.54	7147816.13	-491.93	241995.13	1315194.53
2008/09	15835.75	9275.88	-2267.84	5143098.30	-775.23	600981.55	1758097.60
2009/10	18755.63	10357.68	652.04	426156.16	306.57	93985.55	199895.90
2010/11	21161.44	11360.33	3057.85	9350446.62	1309.22	1714057.01	4003398.37
2011/12	19335.09	9702.50	1231.5	1516592.25	348.61	121528.93	429313.21
	$\sum X =$ 90517.96	$\sum Y =$ 50255.57		$\sum X^2 =$ 23583109.46		$\sum Y^2 =$ 2772547.78	$\sum XY =$ 7705899.61

Here, N= 5

$$\bar{X} = \sum X / N = 90517.96 / 5 = 18103.59$$

$$\bar{Y} = \sum Y / N = 50255.57 / 5 = 10051.11$$

We have

$$\sum XY = 23583109.46$$

$$\sum X^2 = 23583109.46$$

$$\sum Y^2 = 7705899.61$$

Calculation of correlation coefficient (r):

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$r = 7705899.61 / 8086117.60 = 0.953$$

$$r^2 = 0.908$$

Calculation of Probable error,

$$P.Er. = 0.6745 \frac{1 - r^2}{\sqrt{N}} = 0.028$$

$$6 P.Er. = 0.167$$

**APPENDIX – 21**  
**EVEREST BANK LTD.**

**Correlation between Total Deposit and Total Investment**

(Rs. In Million)

F/Y	Total Deposits (X)	Net Profit (Y)	$X = (x - \bar{x})$	$x^2$	$Y = (y - \bar{y})$	$y^2$	XY
2007/08	2754.63	274.40	-4607.85	21232281.62	-656.77	431346.83	2026297.65
2008/09	5586.80	468.61	-1775.68	3153039.46	-462.56	213961.75	821358.54
2009/10	7893.30	1190.83	530.82	281769.87	259.66	67423.32	137832.72
2010/11	9475.45	1278.47	2112.97	4464642.22	347.50	120617.29	734257.07
2011/12	11102.24	1443.55	3739.76	13985804.86	512.38	262533.26	1916178.23
	$\sum X =$ 36812.42	$\sum Y =$ 4655.86		$\sum X^2 =$ 43117538.03		$\sum Y^2 =$ 1095882.45	$\sum XY =$ 6635924.21

Here, N= 5

$$\bar{X} = \sum X / N = 36812.42 / 5 = 7362.48$$

$$\bar{Y} = \sum Y / N = 4655.86 / 5 = 931.17$$

We have

$$\sum XY = 43117538.03$$

$$\sum X^2 = 1095882.45$$

$$\sum Y^2 = 6635924.21$$

Calculation of correlation coefficient (r):

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$r = 6635924.21 / 6873959.71 = 0.9653$$

$$r^2 = 0.93$$

Calculation of Probable error,

$$P.Er. = 0.6745 \frac{1 - r^2}{\sqrt{N}} = 0.0313$$

$$6 P.Er. = 0.1878$$

**APPENDIX – 22**

**MACHHAPUCHHRE BANK LTD.**

**Correlation between Total Working Fund and Net Profit**

**(Rs. In Million)**

F/Y	Total Deposits (X)	Net Profit (Y)	$X=(x-\bar{x})$	$x^2$	$Y=(y-\bar{y})$	$y^2$	XY
2007/08	579.38	46.70	-345.78	11956.81	-38.78	1503.89	13409.35
2008/09	688.84	84.87	-236.32	55847.14	-0.61	1.22	144.16
2009/10	976.07	133.99	50.91	2591.83	48.51	2353.22	2469.64
2010/11	1101.73	76.80	176.57	31176.96	-8.68	75.34	-1532.63
2011/12	1279.80	85.02	354.64	125769.53	-0.46	0.21	-163.13
	$\sum X =$ 4625.82	$\sum Y =$ 427.38		$\sum X^2 =$ 334949.27		$\sum Y^2 =$ 3933.88	$\sum XY =$ 14327.39

Here, N= 5

$$\bar{X} = \frac{\sum X}{N} = \frac{4625.82}{5} = 925.16$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{427.38}{5} = 85.48$$

We have

$$\sum XY = 334949.27$$

$$\sum X^2 = 3933.88$$

$$\sum Y^2 = 14327.39$$

Calculation of correlation coefficient (r):

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$r = \frac{14327.39}{\sqrt{3933.88} \sqrt{14327.39}} = 0.3947$$

$$r^2 = 0.1557$$

Calculation of Probable error,

$$P.Er. = 0.6745 \frac{1-r^2}{\sqrt{N}} = 0.3776$$

$$6 P.Er. = 0.2.27$$

APPENDIX – 23

MACHHAPUCHHRE BANK LTD.

Correlation between Total Deposit and Net Profit

(Rs. In Million)

F/Y	Total Deposits (X)	Net Profit (Y)	$X=(x-\bar{x})$	$x^2$	$Y=(y-\bar{y})$	$y^2$	XY
2007/08	2754.63	46.70	-4607.85	21232281.62	-38.78	1503.89	178692.42
2008/09	5586.80	84.87	-1775.68	3153039.46	-0.61	1.22	1083.16
2009/10	7893.30	133.99	530.82	281769.87	48.51	2523.22	25750.08
2010/11	9475.45	76.80	2112.97	4464642.22	-8.68	75.34	-18340.58
2011/12	11102.24	85.02	3739.76	13985804.86	-0.46	0.21	-1720.29
	$\sum X =$ 36812.42	$\sum Y =$ 427.38		$\sum X^2 =$ 43117538.03		$\sum Y^2 =$ 3933.88	$\sum XY =$ 185464.79

Here, N= 5

$$\bar{X} = \frac{Ex}{N} = \frac{36812.42}{5} = 7362.48$$

$$\bar{Y} = \frac{EY}{N} = \frac{427.38}{5} = 85.48$$

We have

$$\sum XY = 185464.79$$

$$\sum X^2 = 43117538.03$$

$$\sum Y^2 = 3933.88$$

Calculation of correlation coefficient (r):

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$r = \frac{185464.79}{411843.99} = 0.45$$

$$r^2 = 0.2025$$

Calculation of Probable error,

$$P.Er. = 06745 \frac{1-r^2}{\sqrt{N}} = 0.2460$$

$$6 P.Er. = 1.4760$$