

# **INVESTMENT ANALYSIS OF COMMERCIAL BANK IN NEPAL**

**(WITH REFERENCE TO STANDARD CHARTERED BANK NEPAL, NABIL  
BANK, EVEREST BANK AND NEPAL SBI BANK LIMITED)**

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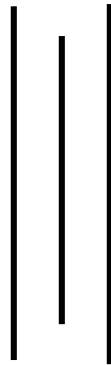
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## **RECOMMENDATION**

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**(With reference to Standard Chartered Bank, Nepal Limited, NABIL Bank Limited, Everest Bank Limited and Nepal SBI Bank Limited)**

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I hereby declare that the work reported in this thesis titled "**INVESTMENT ANALYSIS OF COMMERCIAL BANK IN NEPAL (With reference to Standard Chartered Bank, Nepal Limited, NABIL Bank Limited, Everest Bank Limited and Nepal SBI Bank Limited)**" submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Masters Degree in Business Studies (M.B.S.) under the supervision of **Lecturer Rita Maskey** and **Lecturer Rashmi Rajkarnikar** of Shanker Dev Campus, Putalisadak, Kathmandu.

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## ABBREVIATION

B.S.	:	Bikram Sambat
BOKL	:	Bank of Kathmandu Limited
C.B	:	Commercial Bank
C.V	:	Coefficient of variation
CAR	:	Capital adequacy ratio
CRR	:	Credit Risk Ratio
EBL	:	Everest Bank Limited
F/Y	:	Fiscal Year
HBL	:	Himalayan Bank Limited
Inv.	:	Investment
L&A	:	Loan and Advances
LLPR	:	Loan Loss Provision Ratio
Ltd.	:	Limited
M	:	Million
NIBL	:	Nepal Investment Bank Ltd.
NIBL	:	Nepal Investment Bank Limited
No.	:	Number
NRB	:	Nepal Rastra Bank
NSBI	:	Nepal SBI Bank Ltd.
P.E	:	Probable Error
r	:	Correlation
$r^2$	:	Coefficient of Determination
Rs.	:	Nepali Rupees
S.D	:	Standard deviation
SCBNL	:	Standard Chartered Bank Nepal Limited
SDC	:	Shanker Dev Campus
TUCL	:	Tribhuvan University Central Library

# CHAPTER- I

## INTRODUCTION

### 1.1 Background of Study

Each and every managerial decision-making is based on financial analysis. It covers the acquisition, utilization, control and administration of funds. Managerial finances are an exciting and dynamics area of study and its importance to the long run success of today's business is unquestioned. All individuals and organization earn or raise money and invest money. Finance is concerned with the process of institution, markets and instrument involved in the transfer of money among and between individual business organization and governments. The field of finances is based and dynamics. It directly affects the lives of every person and every organization. The finance is concerned with the conversion of capital funds of meet the finance needs of business organizations financial management leads to the decision making most skill fully.

The field of finance is very broad and dynamic which affects the lives of every person and organization directly and indirectly. Financial management is mainly concerned with the acquisition and investment of fund in the productive sectors for the purpose of enhancing wealth. Investment requires collection of necessary funds and utilization of those funds towards productive sectors. Investment is the exploitation of opportunities by transferring funds from surplus to needed sectors through the transaction of financial instruments.

Investment, in its broadest sense, means the sacrifice of current currencies and resources for the sake of future currencies and resources. An investment is one of the decisions of finance function that involves the decision of capital to establish commercial or industrial venture. In other words it involves commitment of funds into long-term assets that would yield benefits in coming future period. Two aspects of the investment decisions are:

- ) The evaluation of the prospective profitability of the investment.
- ) The measurement and comparison of cut-off rate against that the Prospective return of the investment could be compared.

Investment is primary factor for economic development of any country. Investment is refers to as using present money to get long term benefit. Investment in its

broadest sense means the sacrifice of current money for future money. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward or result of sacrifice comes later and the magnitude is generally uncertain. Time and risk are predominates for investment. Such as Investment in government bonds time is predominates whereas in common stock time and risk both are important. (Sharpe, Gordon, Alexander and Bailey: 2000:1)

Investment also refers to the expenditure of funds for capital goods such as factories, farm, equipment, livestock and machinery. Capital goods are used to produce other goods or services.

The main source of investment is saving. A distinction is often made between investments and saving. Saving is defined as forgone consumption; investment is restricted to real investment of the sort that increases national output in the future. This definition classified investment as real and financial investments. Real investments generally involve some kind of tangible assets such as land, machinery, or factories. Financial investment involves contracts written on pieces of paper, such as common stock and bonds. By and large, two forms of investments are complementary, not competitive.

Bank plays a very important role in Investment by collecting saving from individual and providing loans to individuals and industries for economic activities. Bank itself invests in different securities of the company and industries. It helps to mobilize the idle saving in financial activities. Banking has played a very important part in the economic development of all the nations of the world therefore it is termed as the life blood of modern commerce. The study mainly focuses on the Investment analysis of the commercial banks by comparing four main commercial banks of Nepal.

The term bank or banking can be referred to any person, firm or company accepting deposit of money subject to withdrawal by cheque, draft or order. While talking about investment we cannot forget that saving is primary factor for investment. If there been no saving none of the investment can be expected. So saving is the backbone of investment. Saving is needed to finance capital investment to increase and maintain the productive capacity of the country. It is commonly known fact that an investment is possible when there is adequate savings. If all the income and saving are consumed for basic needs; then there is no saving, neither existence of investment. Therefore, saving and investment are interrelated.

Financial institutions play an important role to develop the business activities by collecting from the public money. Financial institutions involve commercial banks, development banks, finance companies, saving and loan cooperatives, credit unions pension fund and insurance companies. Especially commercial banks play significant role for development of financial activities. They render various services to their customers facilitating their economic and social life. They not only collect idle money from public but also provide loan to investors, who are in need of fund. In addition they invest money in different securities.

### **1.1.1 Brief Profiles of the Banks in Study**

(A) Standard Chartered Bank Nepal Ltd. :

Standard Chartered Bank Nepal Ltd is the JVB established in 1985 in associated with Australian & New Zealand (ANZ) banking group. Initially 50% of its share was owned by ANZ Grindlays Bank Ltd, 35% by Nepal Bank Ltd and 15% by general public.

The share owned by ANZ Grindlays Bank Ltd. Australia was transferred to standard chartered bank United Kingdom on August 2000. Consequently the name of the bank was changed from Nepal Grindlays bank Ltd to Standard Chartered Bank Nepal Ltd. Effective from 16th July 2001.

Initially 100 million of authorized capital has now reached up to 2000 million as shown by its annual report 2010/2011. SCBNL has 1610 million of issued capital and paid up capital in the same values. The bank's 2010/11 reports says it has followed latest perform management technique to measure the staff effectiveness. Which involve planning for agreeing to achieving and receiving results for each job position within stipulated time frame.

This program links staff to the overall objectives of the bank giving each employee a clean role to play in the strategic action plans of the organization. The bank has its V-sat interlink overalls communication link which enables then to centralistic data processing in Kathmandu and has greatly improved local and international communication with the acquisition of the institution by SCBNL group the bank have spent considerable efforts to change the system platform, both software and technology infrastructure.

SCBNL is also providing quick collection service for large corporate which provides as effective & efficient mechanism to collect receivables directly by the bank from Indian customers. The bank commits to contribute more towards the community development working a good corporate citizen. Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest growing markets with an extensive global network of over 1700 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks standard Chartered employs almost 80,000 people, representing over 115 nationalities, worldwide. The bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is one of the first banks in Nepal to implement the Anti-money Laundering policy and apply the 'know your customer' procedures. Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of Banks values. It launched two major initiatives in 2003 under "Believing in Life" campaign – 'Seeing is Believing' and 'Living with HIV/AIDS'. (source: annual reports and prospectus )

**(B) Nabil Bank Ltd.**

Nabil bank was established in 1984 as the first JVB in Nepal. Now it has the largest number of branches. Total of 15 branches and 2 counter currently operating in Nepal. Initially 50% of its share was owned by Dubai Bank Ltd. UAE and 20% of the share by Nepalese financial Institution, remaining share was undertaken by the general public of Nepal. The share owned by Dubai Bank Ltd. Were transferred to Emirates Bank International Limited. Dubai by virtue of its annexation with the later on Nabil sold its entire 50% equity holding to national bank Ltd. Bangladesh. National Bank Ltd. Bangladesh is managing the bank in accordance with the technical services agreement signed between it and the bank on June 1995. The bank has changed its name from Nepal Arab Bank Ltd to NABIL bank limited since 1st January 2002.

Initially the bank have 100 million rupees capital. 50 million rupees issued capital and paid up capital was 30 million rupees. Which is now reached at 2100

million rupees authorized capital, 2029 million rupees of issued capital & paid up capital. Nepal Rastra Bank approved for opening its branch in other places. Nabil has continued to extent its network and has given emphasis for it is own office premise. It has total 49 branches and 68 ATM's operating to serve its customers regularly. It has also aid it's commitment for the managerial and technical skill development programs. It has employed 1289 staffs for better service with 657 permanent staffs and 625 outsourced and contract staffs. (source: annual reports and prospectus )

**(C) Nepal SBI Bank Limited**

Nepal SBI Bank Limited was established in 1993, under the company Act. It is also a foreign joint venture bank and the foreign partner is State Bank of India, holding the 55.05%% of equity share of Nepal SBI Bank Limited, is managing the Bank under joint venture and technical services agreement signed between it and Nepalese promoters. Regarding the composition of equity capital, State Bank of India, general public, and employee's provident fund share: 55.05%, 29.94% and 15.01% respectively. There are 50 branches, 6 extension counters, 68 ATM's, and 3 administration offices of Nepal SBI Bank Limited are in operation. It's authorized capital and paid-up capital is Rs.2000, 000,000 and Rs. 1,86,93,03,258 respectively. It has employed 505 employees. (source: annual reports and prospectus )

**(D) Everest Bank Limited**

Everest Bank Limited was established in 1992, under the company Act. It is also foreign joint venture bank and the partner was United Bank of India and managed from very beginning till November 1996. Later on it handed over the management to the Punjab National Bank Ltd, India that holds 20% equity on the banks share capital. Altogether 44 branches, 1 representative branch in Delhi, 1 Regional office in Pokhara and head office in Lazimpat are in operation. Its authorized capital is Rs.2,00,00,00,000, issued capital with cumulative convertible preference share Rs.1,28,14,06,500 and paid-up capital with cumulative convertible preference share Rs.16,00,00,000 is Rs.1,27,96,09,490 respectively. It has employed 586 employees. (source: annual reports and prospectus )

## **1.2 Focus of the Study**

For the development of any country first it is required to have enough capital. It is the backbone for the development of the nation. Nepal lacks the adequate capital for its development planning. Due to this reason so many development planning are in pending. If there is enough capital available it can invest in the profitable project and contribute little bit in the national GDP. Investment promotes economic growth and contributes to a nation's wealth.

Due to the growth on banking sector in Nepal and huge competition, opportunity for investment are comparatively losses. In this critical situation joint ventures banks are most appropriate or best suited because of their abundant resources, new technologies, sufficient capital and above all high integrity. Joint ventures banks can easily redress the problem faces by others and avoids many risks in investment by formulating and implementing good policy for proper utilization of funds. The fundamental principles of investment must be followed thoroughly for profitable investment.

The establishment of the Joint Venture (Commercial) banks has given a new horizon to the financial sector of Nepal. The study is mainly focused on the investment policy of a joint-venture bank namely Standard Chartered Bank Nepal Ltd., Nabil Bank Ltd., Everest Bank Ltd., and Nepal SBI Bank Ltd., in the Five year period form 063/64 to 067/68

## **1.3 Statement of the Problem**

Nowadays banking industries are facing various problems from external environment such as political legal, economic and social. The unstable politics is the main cause that has negative impact in the development of the banking sector. Banking sector is not growing, as it ought to be, though it is growing. Various policies launched by NRB may be advantageous from the viewpoint of nation but it is providing unnecessary interference in the daily transaction of the Commercial Banks. The other common problems faced by both joint ventures banks and state owned Commercial Banks is the cutthroat competition between them. New entry of banks and financial companies has made the tough competition compared to the joint venture banks due to their nature of work and social responsibility. In Nepal banks are

acting only as the depositories of communities' savings and lent such savings to those who are in need and are acceptable to the banker to certain criteria. They are mainly guided by the objectives of profit maximization, which provides synergistic effect again to encourage savings. These Commercial Banks are active only in the urban area because they expect great opportunities for the maximization of profit. Rural areas are being neglected. Because of the increased banking industries, competition is tough today and they are facing the problem of proper investment opportunities. They collect adequate finance from mass but could not find or locate new investment sectors required to mobilize their funds. Many banks or companies succumbed to liquidation although they had sustainable investment sectors. It has ensured bad impact on interest rate to the depositors, lower market value of share etc.

The main economic goal of developing countries is to accelerate the growth rate. Although most of the developing countries are predominantly agricultural, Industrial development is crying need of these countries for their economic development and investment is the dominant factor for industrial development. But rate of investment in Nepal is very low. The main cause behind it is political instability, low investor confidences, lack of knowledge on Investment management, lack of improved prospectus to investors, restriction on foreign portfolio investment of Nepal, lack of efficient capital market and slow privatization process.

Investment greatly depends on saving behavior of citizens but the saving rate of Nepalese is very low because most of the citizens are below poverty level. They don't have enough income for daily consumption. Some people hardly save some money but they want to save for future. Only few people invest in industries. People must be motivated to use their saving and mobilize their excess fund in economic activities.

Due to tough competition and lack of peace and political instability, Nepalese banks are facing problem to invest their funds in different sectors. So the banks have facing low liquidity transaction. In other side the demand of loan is very low.

Nepal is considered much liberal as banks and finance institution are opened for foreign Investment for quite a long time. As a result, the country now has 32 commercial banks which is a lot of improvement in the banking sectors. Most of the big commercial banks in Nepal are joint venture with a foreign bank. But some of the

new banks were opened during last decade without foreign collaboration and some foreign banks have withdrawn their Investment from Nepal.

With some 32 commercial banks, 87 development banks and 79 financial companies operating in Nepal, the market seems overcrowded and the banks are now finding a tough competition among themselves. Since the entry barriers are not so high due to the governments liberal policy, this competition is expected to be more intense in the near future, as there is always the possibility of a new player entering this sector.

Nepalese commercial banks have not formulated their Investment policy in an organized manner. They mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They don't have clear view towards Investment policy. There is a lack of sound Investment policy of commercial bank. Furthermore, the implementation of policy is not in an effective way. Commercial banks have to face tough competition due to limited and narrow capital market and investment opportunities. In recent political condition of country it is hard to survive any financial institutions and few of them are in financial crisis. So Nepal Rastra bank has introduced a policy of merge and it also provides various facilities to merging companies. They are even discouraging depositors by offering very low interest and minimum threshold balance. This will definitely make bad impact on economy of a country. There is lack of knowledge on financial risk, interest rate risk, management risk business risk, liquidity risk, default risk, purchasing risk etc.

Commercial banks don't seem to invest their funds in more profitable sector. They are found to be more interested Investment in risky and highly liquid sector i.e. treasury bills development bonds and other securities. They keep high liquid position and flow lower funds to the productive sectors, this result into lower profitability to commercial banks and ignorance to the national economic growth process. This is the main reason for crisis in the commercial banks and in the whole national economy as well.

- ) In such a critical situation could commercial banks maintain their investment activities to growth the economy of nation?
- ) Could sample banks follow the rule of NRB and would they maintain for future?
- ) How sound is the operational result in relation to their profitability?

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

Investment is necessary for economic development of the country. This study attempts to assess the role and impact of Investment on economic development of the country. The main objectives of this study are as follows:

- ) To study the Investment made by selected commercial banks in total Investment made by commercial banks.
- ) To study Fund utilization or Investment trend and situation of selected banks.
- ) To identify Investment sector of selected commercial banks.
- ) To study the relationship between investment and Deposit of the banks.
- ) To suggest and recommend some measures for fund mobilization and investment policy.

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

The study is important to know how the banks are utilizing their deposits. The position of the banks under study about loan and advances, investments, deposits and net profit can be determined, which makes clear about their performance and helps in making any kind of decisions regarding these banks. Similarly the aim of the study is to identify the deposit and investment pattern. It provides a useful feedback, remedial actions, good planning and takes appropriate decision to the policy makers of the selected banks, governments and the other concerned. Likewise, the research provides required information to the persons such as general readers, decision makers, brokers, stock holders, traders and financial agencies.

#### **1.6 Limitation of the Study**

This study is done for partial fulfillment for masters of Business studies (MBS). Time constraints financial problem and lack of research experience will be the primary limitations and other limitations are:-

- ) This study is confined to four commercial banks. It does not cover entire banking industry.
- ) Non-availability of various references or sources and lack of sufficient time is another limitation faced to complete this research work.
- ) Validity of secondary data depend on opens the source.

- ) This study is mainly based on the secondary data available and NRB and concerned banks.
- ) Validity of secondary data relies opens the source.
- ) In this study it covers only five years data from fiscal year 2063/64 to 2067/68.

## **1.7 Organization of the Study**

The whole study will be divided into five chapters.

### **Chapter I: Introduction**

This chapter will deal with introduction. This includes background, statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

### **Chapter II: Review of the literature**

This chapter includes the review of the relevant studies. It deals with the review of available literature. It includes review of books, journals, previous thesis and web sides etc. Beside this it includes various related study of the articles and unpublished thesis.

### **Chapter III: Research Methodology**

This chapter explains the research methodology used in the study, which includes research design, source of data, population and samples, method of data analysis etc.

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

The fourth, which is the important chapter of the study, will include data presentation, analysis of data and findings.

### **Chapter V: Summary, Conclusion and Recommendation**

The fifth chapter summarizes the main conclusion the flows the study and offers suggestions, recommendation for further improvement and conclusion of the study. A bibliography and appendices will be attached at the end of the study.

## **CHAPTER –II**

### **REVIEW OF LITERATURE**

The term review of literature is very important for researcher or investigator in the area of concern problem. It distributes the knowledge and information for the researcher to discover the uncover things by other researcher. So, review of literature means reviewing the research studies or other relevant propositions in the related areas of the study. So that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research works.

The main reason for a full review of research in the past is to know the outcomes of those investigators in areas where similar concept and methodologies had been used successfully. Further an extensive or even exhaustive process of such review may offer vital links with the various trends and phases in the researches in one's area of specialization, familiarizing with characteristic percepts, concept and interpretation with special terminology with the rationale for understanding one's proposed investigation.

This chapter shows the background of the work and a review of recent and reticent literature. In this regard, basic academic course books specially related to topic, some of the major research works, major articles published in journals and the related thesis are reviewed.

This chapter of the study is basically concerned with conceptual framework and review of literature relevant to the investment analysis of commercial banks. Every study is much based on past data, knowledge and activities. The study of past knowledge should not be ignored as it provides foundation to the present study. So, the analysis and presentation of following parts define this chapter.

#### **2.1 Conceptual Framework**

##### **Concept of Bank**

Most people store their money with bank, which keeps an account of how much money is costumer deposit. People gain access to their money through cash machine, counter transaction or by writing cheques. Banks may provide interest when

a certain amount of money is kept in the account, but will charge customers who borrow money. Banks also provide financial services, such as pensions and insurance policies. (The world Book Encyclopedia: 2003: 91)

According to World Bank, “Banks are financial institutions that accept funds in the form of deposit repayable on demand or in short notice.” (Joshi: 1990: 78)

In brief, bank is an institution, which accepts deposits in deposit in different accounts, provides loans of different types and creates credit.

In general, the term bank is used to mean commercial bank. The commercial bank is the oldest type of bank. The profit maximization is the main objective of this bank. The modern commercial banks collect deposits in current, saving and fixed account from general public and the institution. It provides loans to individuals and institution from the deposits. In this way bank mobilize saving for productive works and thus for industrial development. The modern commercial banks provide loan not only to traders but also to agriculture, industry and service. Although this bank concentrates itself on short-term loan, it has started to provide even medium and long-term loans to some extent. The difference between the rate of Investment on deposits and loan is the main source of its income. The function of a commercial bank is not unique in all countries.

The banks that collect deposits and advance loans are called commercial banks. According to these definition commercial banks accepts deposit and provide loans but other financial institutions also collect deposits. To differentiate commercial bank from other institution Dr. Shyam Joshi had defined it as a great institution that conducts the payment mechanism of a country. The individuals and institution make payment to each other through the mechanism of commercial bank. The commercial bank plays a leading role in the smooth operation of an economy. It makes available all financial services to individuals and institutions. (Joshi: 1990: 81)

Commercial banks are those banks, which pool together the saving of the community and arrange them for the productive use. They accept deposits from the public and provide same deposits to the public as loan and advances. In fact, they circulate the money and create credit. The concept of the commercial banks made the economy strong. And now it's playing important role to make country economically

strong. According to the Black's law Dictionary "Commercial Bank" means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time-deposit boxes, and to provide similar services. Likewise section 2(a) of the Commercial Bank Act 2031 has defined that "Commercial Bank" means a bank which operates currency exchanges transactions, accepts deposits, provides loan perform, dealings, relating to commerce except the banks which have been specified for the co-operative, agricultural, industry of similar other specific object. (Bhandari; 2003; 3).

Hence, the term commercial bank is used taking meaning of all banking habits. That's why joint stock banks, member banks, and credit banks are frequently used interchangeably with the term commercial banks. But it is different that central bank. Central Bank cannot be interchangeable with other banks. In this way, a commercial bank is different from a central bank. While the primary objective of a commercial bank is the maximization of profit and central bank is primarily concerned with the effects of its operations on the functioning of the economy. Moreover, while there may certainly be many competing commercial banks, there exists only one central bank in a country. While the commercial banks compete against each other, the central bank comes out if any; ordinary banking business for the general public, incomplete if confines itself mainly to controlling the operations of the banking system in country.

In general, bank means an institution that accepts deposits in different accounts and provides loans of different types. Bank can be defined according to the functions of a bank or the service it provide such as commercial bank, central bank and industrial bank. In the words of leaf a bank is a person or corporation which holds it out to receive from the public, deposits payable on demand by cheque.

### **Concept of Investment**

Investment is a present sacrifice for the sake of future benefits. Therefore, investment always involves risk. Present decision about selecting the best alternatives should always take the future risk into consideration. The few alternatives of investment in the past have new expanded into hundreds. Hence, the complexity of investment has also been increasing day by day. To select the best alternative and to construct an efficient portfolio, a wise analysis and decision is required. Before

making any decision on investment we must be well informed about the factors, which affect investment. Investment decision related with saving, capital formation, capital market, risk involve with it, return, inflation etc.

Investment, in its broadest sense, means the sacrifice of current rupees (dollars) and resources to the sake of future rupees (dollars) and resources. In other words, it is a commitment of money and other resources that are expected to generate additional money and resources in the future. Such a commitment takes place in the present and is certain to occur but the reward comes in the future and always remains uncertain. Therefore, every investment entails some degree of risk.

Investments are made in assets. Assets generally are two types: real assets (Land, Building, Factories etc) and financial assets (Stock, Bonds, T-Bills etc). These two types of investment are not competitive but complementary, highly developed institution for financial investment greatly facilitating real investment. (Bhattari: 2005: 1)

Country's growth rate is largely depending on Investment and commercial banks are key for investing funds in productive works as they deal with money. They collect funds and utilize it in a good Investment, which is not an easy task for them. Therefore an Investment of funds may be the question of life and death for the bank. They must have effective and good Investment policy to exits in this world of competition.

The problem of the investor is to select the funds whose objectives and degree of risk taking most closely match its own situation. The one that will accomplish for him what he would wish to do for himself if he could diversify and manage his own holding. (Bhalla :1983: 2)

Investment is the value of that part of economics output for any time period that takes the form of new structure, new producers' durable equipment and change in inventories. (Joshi: 2057: 89)

There is risk associated with Investment, as alas, there is risk associated with most elements of our lives. In the eyes of investors and creditors, a company's business risk complexion may change as a result of the investment it chooses. Because Investment proposals entail differing degrees of business risk, we must

analyze not only their expected profitable but also the possible deviation from that expectation. Risk is expressed in terms of the dispersion of the probability distribution of possible net present values or possible internal rates of return and is measured by the standard deviation. Risk can be measured under the assumption of serial independence of cash flows over time or when cash flows from one period to the next are dependants over time. For dealing with situation of moderate correlation of cash flows over time, probability trees are useful. Simulation techniques often can be applied to analyze risk Investment. (Vanhorn: 2003: 124)

In world book (2003), it states that Investment promotes economic growth and contributes to a nation's wealth. When people deposits money in a saving account in bank. For example, the bank may invest by lending the fund of various business companies. These firms, in return, may invest the money in new factories and equipment to increase their production. In addition to borrowing from the banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issue bonds to obtain funds to invest in such projects as the construction of dams, roads and schools. All such Investment by individuals, business and govt. involves a present sacrifice of income to get an expected future benefits. As a result, Investment raises a nation's standard of living. (The world Book Encyclopedia: 2003: 323)

The above statement clearly specifies the importance of Investment and the role of banks for the development of the country. Banks is the major financial need for the various developments. The banks can play the vital role for the financing activities in the business. The saving and Investment is most necessary for the developing country, which can be managed by banks. Capital accumulation also plays vital to accelerate the economic marginal propensity of consumption. As a result, such countries are badly in trapped into the vicious circle of poverty. Therefore the basic problem of the developing of the countries is to raise the level of saving and thus Investment and the problem can be solved through well-established banks.

### **2.1.1 Features or Principle of Sound Investment Policy**

It is universally known fact that the most important problem in banking administration is that of investing its deposits and paid up capital in various forms of earning assets. This is also known as portfolio policy. The bank's portfolio being nothing but it is an arranged and digested scheme of its assets.

The funds of banks are generally invested either in those assets, which are non-profitable, or those, which are profitable. Non-profitable assets include cash reserve and the dead stock and profitable assets includes call money, investment, advances and loan, cash credits, overdrafts, discounting of bills and acceptances etc.

The guiding principal of sound Investment is as follows:

### **1. Safety**

Safety would be the first guiding principal of a bank, so far as its advances and investment are concerned, because the very existence of a bank depends on the safety of its outstanding, which should never therefore be sacrifice to the profit-earning capacity of its advances. This has led people to believe that a bank will never advance any loan, unless it is fully secured. Such is no doubt the ideal conception of banking, but as a result of its competition from other banks, every bank has to grant a certain number of loans to its customers against their personal security. In such cases, the bank uses discretion and never lends a sum obviously beyond its customer's resources. Consequently, to maintain a banking concern in sound condition should be above suspicion. Scrupulous care should be taken that the funds lent out are not subject to any risk of being lost.

### **2. Liquidity**

While making advances and Investments, the bank must see that the money it is lending is not going to be locked up for a long time, which would make its loans and advances less liquid and more difficult to realize in cases of emergency. A bank can afford to lend funds only for a short period, as its liabilities are either payable on demand or at short notice. If it makes advances for long term there is no likelihood of it being able to recall such loans in time to meet the demands of its depositors.

### **3. Diversification of Risk**

It is also necessary to remember that a prudent bank must avoid investing all its funds in meeting the needs of any one industry or any one group of industries for considerations of self-interest as well as the larger public good. The imprudence on putting one's own eggs into one basket cannot be too often reiterated. Therefore bank should invest their funds in different field than investing in same field or sector.

#### **4. Return**

Another important factor that will determine the decision of the bank whether or not to grant loan or to make an Investment will depend upon the answer to the question whether or not it will get a fair return on its Investment. A bank always aims at securing maximum profits for its share-holders. The different between borrowings and lending rate constitutes the gross profit and no bank ordinarily will think of an advance without a satisfaction margin of profit.

#### **5. Marketability**

The investments of the bank should be such as can be easily sold and realized in cash readily. Loans given against commercial paper representing goods in transit or against stocks and shares of well-known companies are easily realizable while loans given against immovable property cannot be easily realized. The bank must make sure that the securities, in which he invests his funds, are easily saleable without appreciable loss.

#### **6. Stability of Price**

The primary object of a bank in buying securities is not to gain by a possible rise in their prices, which is the aim of a speculating dabbler. Therefore the price of the securities should be liable to wide fluctuations.

#### **7. Stock Exchange of Securities**

This consists of government securities as well as securities of the joint stock companies. These securities are easily and quickly realizable. As they are quoted on the stock exchanges so their value can be easily ascertained. In case of need, a bank can either sell them or pledge them without any hesitation. But before accepting them, the bankers should see that the shares of the companies are not partly paid, that sufficient margin has been kept and they are negotiable. Speculative shares should not be accepted. (Mali: 1965: 23)

#### **2.1.2 Some Important Terms**

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

**a. Loan and Advances**

Loan, advances and overdraft are the main source of income for a bank. Bank deposits can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. The facilities of granting loan, advances and overdrafts are the main service in which customers of the bank can enjoy.

Funds borrowed from the banks are much cheaper than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activity always increases the demand for funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect, of low interest rate.

In addition to this, some portion of loan, advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others, in mobilization of commercial banks fund, loan, advances and overdrafts have occupied a large portion.

**b. Investment on Government Securities, Share and Debenture**

Though a commercial bank can earn some interest and dividend from the investment on government securities, share and debentures, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities bond and share for several reasons. Some of them are given as:

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

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

**c. Investment on Other Company's Share and Debenture**

Due to excess funds and least opportunity to invest their funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank's directives many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. Nowadays most of the commercial banks have purchased regional development banks and other development bank's shares.

**d. Deposits**

For a commercial bank, deposit is the most important source of the liquidity. For bank's financial strength, it is treated as a barometer. In the word of Eugene, "a bank's deposits are the amount that it owes to its customers." Deposit is the lifeblood of the commercial bank. Though, they constitute the great bulk liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits, for accounting and analyzing purpose, deposits are categorized in three headings. They are: Current Deposits Saving Deposits Fixed Deposits

**2.1.3 Legislative Provision**

Legislative environment has significant impact on the commercial banks established, their mobilization and utilization of resources. All the commercial banks have to conform to the legislative provisions specified in the commercial bank act 2031 and the rules and regulation formulated to facilitate the smooth running of commercial banks.

Under the provision in Nepal Rastra Bank, (NRB) Act 2002, the NRB has formulated and implemented monetary policies so far. The focus of monetary policy has been to insure price, external and financial sector stability so as to create the environment supportive for high and sustainable economic growth.

NRB issues new monetary policy on July, 2010 for fiscal year 2010/11. The provision under this policy as follows:

- ) The compulsory cash reserve ratio (CRR) has been kept unchanged at minimum 5.5 Percent on account.
- ) The capital adequacy ratio (CAR) should have to maintain 11.0 percentages.
- ) Export credit refinance facility in domestic currency has been kept unchanged at 2.0 percent. Commercial banks are allowed not to charge more than 5.0 percent to the concerned borrower on such facility.
- ) The penal rate for SLF has been kept unchanged at 3.0 percent along with the existing cap of 90 percent and maturity period of 5 days.
- ) The existing provision of refinance facility of Rs. 2 billion to sick industries and the refinance rate at 1.5 percent will be continued for 2010/11.
- ) The commercial banks, development banks and finance companies are now required to invest in government securities at a ratio of 6.0 percent, 2.0 percent and 1.0 percent of their total domestic deposit mobilization respectively by second quarter of 2010/11. Such ratio should be maintained at a rate of 8.0 percent, 3.0 percent and 2.0 percent respectively by the end of fourth quarter of 2010/11.

(Source: Monetary Policy for Fiscal Year 2010/11 NRB, Press Release on July 2010, Central office, Baluwatar, Kathmandu, Nepal)

### **Regulatory functions of NRB**

#### **16 prudential regulations of Nepal Rastra bank are as follows:**

- ) Regulation regarding minimum capital fund.
- ) Regulation regarding Loan classification and provisioning.
- ) Regulation regarding single obligor limits and credit concentration.
- ) Regulation regarding Accounting policies and financial statements
- ) Regulation regarding Risk Management
- ) Regulation regarding Good corporate Governance.
- ) Compliance with supervision reports and reporting
- ) Regulation regarding Investments

- ) Financial reporting
- ) Buy and sale of promoter's share
- ) Regulation regarding consortium
- ) Regulation regarding interest rates, buy and sale of promoters share,
- ) Credit information and blacklisting etc.
- ) Regulation regarding CRR
- ) Regulation regarding expansion of Branches
- ) Regulation regarding Interest rates
- ) Regulation regarding resource Mobilization

## **2.2 Review of Books**

Banks are such type of institutions, which deal in money and substitute of money. They deal with credit and credit instruments. The most important thing for the bank is good circulation of credit. Fluctuate flow of credit and decisions harm the whole economy and the bank as well. Thus to collect fund effectively and its well utilization is the very challenging task for the bank. The decision for an investment of fund may be the question of life and death of the bank.

Investment is the employment of funds with the aim of achieving addition income or growth in value. It involves the commitment of resources that have been saved or put away from current consumption in the hope that same benefits will accrue in future. Investment involves expected changes in prices during the period and for the uncertainty involved in expected future cash flows. Thus, investment is the most important function of commercial banks. It is the long-term commitment of the bank in the uncertain and risky environment. It is very challenging task for commercial banks. Therefore, a bank has to be very cautious while investing their funds in various sections. The success of the bank depends heavily upon the proper management of its invisible funds.

In the words of Gitman and Joehnk (1990) "Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns"

Frank and Reilly (2001), defines "An Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the

investing unit for the time. Funds are committed, for the expected rate of inflation and also for the uncertainty in the future flow of the fund."

H.D. Crosse says in this regard, "Lending is the essence of commercial banking, consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well-conceived lending policies and careful lending practices are essential if a bank is to perform its credit. Creating function effectively and minimize the risk inherent in any extension of credit."

James C Van Horne expresses his view as, "Investment policy fixes responsibilities for the investment disposition of the bank's assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets.

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

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

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

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

Encyclopedia Britannica World Book (I) defines the word 'Investment' as, Investment is the use of money to earn income or profit. The term also refers to the expenditures of funds for capital goods such as factories, firm, equipment, livestock, and machinery. Capital goods are used to produce other goods or services.

Many people invest part of their income for financial gain. Others make investment to protect the purchasing power of their saving against raising prices.

### **2.3 Review of Articles**

With the title of 'Banking the future on competition' Mr. Sharma wrote in Business age 2000 that the commercial banks are establishing and operating mostly in urban areas. From his studies he found that:

- ) Commercial banks are establishing and providing their service in urban area only. They don't have interest to establish in rural areas. Only the branch of Nepal Bank Ltd and Rastriya Banijya Bank Ltd. are running in those sectors.
- ) They have maximum tax concession.
- ) They don't properly analyze the credit system. He found that due to the lack of Investment avenues, banks are tempted to invest without proper credit appraisal and personal guarantee, whose negatives side effects would show colors only after four or five years.

According to Pradhan and Yadav, in title of "*The Economic Journal of Nepal*" (2002), saving is income not consumed. It is one the important and perhaps the chief sources of Investment. In developing countries about 45% of the incremental saving is invested domestically, while in developed countries about 75% of the incremental saving is invested domestically. This suggests that capital is more mobile in developing countries than in developed countries. Saving are of great significance in a country's development. While saving results in high economic growth rate, rapid development leads in turn high savings. Nepal's saving rate is lower as to other developing countries, however, even to achieve 5 to 6 percent economic growth rate, more than 25 percent annual Investment of GDP is considered necessary. As the country's current domestic saving are about 14% the economic resources are short by nearly 11% in proportion of the GDP.

The situation is such that huge portion of Investment has still to be made with external resources. The amount of saving of a typical household in Nepal is small because of the people have limited opportunities for Investment. They prefer to spend saving on commodities rather than on financial assets. This restricts the process of

financial intermediation, which might otherwise bring benefits such as reduction of Investment risk and increase in liquidity. When capital is highly mobile international, saving from abroad can also finance the Investment needed at home. When capital is not mobile internationally, saving form abroad will limit Investment at home.

Wherever there is Investment there must be Capital formation. The development of an economy requires expansion of productive activities, which in turn is the result of the capital formation, which is the capital stock of the country. The change in the capital stock of the country is known as Investment. Therefore Capital formation is closely related to investment. Investment generally takes two forms:

- i. Financial Investment and
- ii. Physical Investment

Physical Investment related to real Investment in the economy or industry, which is known as capital formation. Capital formation shows the change in gross fixed assets of productive units of manufacturing industries.

Capital formation refers to the creation of physical productive facilities such as building tools, equipment and roads. The process of adding to the amount of stock of the real assets produces growth in the economy. It means increasing a country's stock of real capital. It implies additions to the existing supply of capital goods in a country. It represents an additional of new capital stock to existing stock after deducting depreciation, damage and other physical deterioration of the existing capital stock. Economic progress in country depends upon its rate of capital formation. Hence, a key factor in the development of an economy is the mobilization of domestic resources. In the process of capital formation, the capacity to save by certain classes of people and institution becomes quite important. These people have varied asset-preferences, which change from time to time. The need of entrepreneurs who actually use savings for productive purpose also varies over time.

Yadav Pant wrote in "*info Himalayan*" (2003), a bank is a service-oriented institution, which provides many kinds of services for its customer, all of which are equally important. Moreover, the quality of services should be up to the mark to meet the customer's requirement. Customers are the key players for a service organization, without whom such organization can never exists.

Barbara and Sotiris (2001), They focus on an empirical investigation of service failures and service recovery in retail banking. Different types of failures and recovery strategies used by Greek banks to them were identified using the critical incident technique.

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

Lin Peter Wei-Shong, Mei Albert Kuo-Chung (2006) define the lending function is considered by the banking industry as the most important function for the utilization of funds. Since, banks earn their highest gross profits from loans; the administration of loan portfolios seriously affects the profitability of banks. Indeed, the large number of non-performing loans is the main cause of bank failure. Banks are learning to review their risk portfolios using the criteria laid down by Basel II. Greenspan has indicated that Basel’s goal is to induce bankers to improve their risk management capability, including how the institutions price products, reserve for loss, and control their operations (Rehm, 2002). This research is in line with the purpose of Basel II, i.e. to reduce a bank’s operational risk during the lending process through a better monitoring of the employees in the lending department.

According to them, with respect to performance, banks now use various measures to assess bank efficiency and related functions in the bank lending process. Traditionally, banks determined operating efficiency by using measures of bank profitability, such as return on equity, return on assets, and return on investment; also, banks used operational ratios, such as monetary output per staff member, and total operating expenses per unit of output.

In this research, a value added approach use a competitive strategy and the concept of the value chain developed by Porter (1985). The research has a specific

goal; that is, to determine the appropriate internal performance measure each activity along the route of the lending process. This production process can be described as value added process. The total value added, across the profit production process, can be measured by using differences between the values of all outputs and inputs. The value added analysis carefully counts only the incremental profit an activity generates during the production process. The final measure then is referred to as total value created from this profit production process. The internal measure in this research is referred to as the value created from a specific activity during the process.

## **2.4 Review of Unpublished Thesis**

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

Silwal K.S (2004) in her thesis, "*Investment Policy of Commercial Bank*" a comparative studies of NABIL and SBI Banks. His Main Objectives are:

- ) To discuss fund mobilization and Investment policy of NABIL and SBI in respect to its fee based off balance sheet transaction and fund based on balance sheet transaction.
- ) To evaluate the quality, efficiency and profitability and risk position.
- ) To evaluate trend of deposit, investment, loan and advances and projection for next years.

On the basis of analysis findings of his study are as follows:

- ) The liquidity position of a bank is affected by external as well as internal factors..
- ) To get success in competitive banking environment, depositor's money must be utilized as loan and advances.
- ) Commercial banks cannot move away from their target that is profit and customers satisfaction.
- ) Although the securities issued by government yields the lowest interest rates are considered to be risk free. From this study, it is found that SBI has maintained lowest in comparison to NABIL.

- ) Most of the JVBs have focused their banking services especially to big client
- ) In the light of growth competition in the banking sectors, the business of the banks should be customer oriented.

Aryal B.B. (2005) has conducted a study on *“Investment Policy of JVBs in Nepal” a comparative study of EBL with NABIL Bank and NB Bank Ltd.* His objectives are as follows:

- ) To examine the liquidity management, profitability position and investment policy of EBL in comparison to NABIL and NB Bank.
- ) To analyze the relationship between loan and advance and total investment with other financial variable of EBL and compare with NABIL and NB Bank.
- ) To study the various risks in investment of EBL in comparison to NABIL and NB Bank.

His major findings are as follows:

- ) The liquidity position of EBL is comparatively better than NABIL and NBBL. It has higher cash and bank balance to total deposit can cash bank balance to current assets ratio.
- ) Profitability ratio of EBL is comparatively worse than the NABIL and NBBL.
- ) Risk ratio shows that EBL has maintained higher risk which indicates heterogeneous variability in its operation. Whereas there is moderate risk taken by NABIL and NBBL
- ) EBL has maintained high growth rates in total deposit, loan and advances but has moderate position in investment.
- ) EBL has the highest value of coefficient of correlation between deposit loan and advances that other compared banks.
- ) The deposit of EBL, NABIL and NBBL are in increasing trend which leads its profit also to the increasing trend.

- ) There is no significance difference in between loan and advance to total deposit.
- ) There is significant different between OBS operation to loan and advances of EBL, NABIL and NBBL.

Joshi J (2005) has conducted a study on “*Investment Policy of Commercial Bank of Nepal*” a comparative study of EBL with NABIL Bank and BOK. Her main objectives are :

- ) To examine the liquidity management, profitability position and investment policy of EBL in comparison to NABIL and BOKL.
- ) To analyze the relationship between loan and advance and total investment with other financial variable of EBL and compare with NABIL and BoKL.
- ) To study the various risks in investment of EBL in comparison to NABIL and BoKL.

Her findings are as follows:

- ) EBL has higher idle cash and bank balance. It may decrease profit of bank. EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.
- ) Before mobilizing funds, EBL is recommended to collect a large variety of deposit through schemes.
- ) It is good to invest more on share & debentures as it encourage financial and economic development of the country.
- ) EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor’s fund.
- ) The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss.

Sanjel M. (2008) conducted a study on “*Analysis of investment policy of Commercial Banks.*” a comparative study of Standard Chartered Bank, .Nepal Bangladesh Bank and Himalayan Bank Limited. His main objectives were as follows:

- ) To evaluate the liquidity, assets management, efficiency and profitability of HBL, NBBL, and SCBNL.
- ) To analyze the deposit utilization trend of the HBL, NBBL, and SCBNL.
- ) To analyze the relationship between total investment with other financial variables of HBL, NIBB, and SCBNL and comparison between them.
- ) To recommend the package of workable suggestions and possible guidelines to improve investment policy of HBL, NBBL and SCBNL based on the findings of the study.

The findings of his study were as follows:

- ) The mean ratio and CV of current ratio of SCBNL is satisfactory. Only the SCBNL seems capable of paying current obligations. The ratio of HBL seems improving but the NBBL trend is deteriorating.
- ) The mean ratio and CV of cash and bank balance to total deposit ratio and current assets ratio of HBL is higher.
- ) .The mean ratio and CV of investment on government securities to current assets ratio of SCBNL has been found higher and more consistent. SCBNL has better position, HBL has average and NBBL is poor
- ) The mean ratio of loan and advances to total deposit and CV of loan and advances to total assets of NBBL is higher than others.
- ) The mean ratio and CV of total investment to total deposits and government a security of SCBNL is higher and stable i.e. SCBNL mobilize its more deposits on investment government securities than HBL and NBBL.
- ) The average ratio and CV of return on loan and advances, return on assets and return on equity is higher of SCBNL than others.
- ) The average ratio of interest earned to total operating income of HBL

is higher and average ratio of interest earned to total assets of NBBL is higher than others.

- ) The growth ratio of loans and advances and growth ratio and CV of total deposits is higher of NBBL than others.
- ) The value of coefficient of correlation between deposit and loans& advances and value of coefficient of correlation between deposit and total investment of HBL is higher than SCBNL and NBBL
- ) The trend value of deposits, loan and advances and total investment all are in increasing trend of all three banks but in deposits HBL, in loan and advances NBBL and in total investment SCBL is in front.

Raya (2008), in his thesis, "*Investment Policy and Analysis of Commercial Banks in Nepal*" made a comparative study of SCBL with NIBL and NBBL. His Main Objectives are:

- ) To discuss fund mobilization and Investment policy of SCBL in respect to its fee based off balance sheet transaction and fund based on balance sheet transaction.
- ) To evaluate the quality, efficiency and profitability and risk position.
- ) To evaluate trend of deposit, investment, loan and advances and projection for next years.

His Majors Findings:

- ) Mean current ratio of SCBL is slightly higher than NBBL and NIBL
- ) Mean ratio of cash and bank balance to total deposit of SCBL is lower than NIBL and NBBL
- ) Liquidity position of SCBL is comparatively better than NIBL and NBBL. It has the lowest cash and bank balance to total deposit and cash and bank balance to current ratio. SCBL has a good deposit collection. It has made enough Investment on government securities but it has maintained low investment policy on loan and advances.
- ) SCBL is comparatively average successful in it's on balance sheet operation. But off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position.
- ) SCBL is comparatively higher position than that of other banks, as

well as its use to provide interest to the customers for different activities.

- ) There is significant relationship between deposit of loan and advances and between asset and net profit of SCBL.

Joshi..M.(2009), has conducted a study on “*Investment policy of Commercial Banks in Nepal* ”a comparative study of EBL with NABIL and BoKL. Her main objectives :

- ) To examine the liquidity management, profitability position and investment policy of EBL in comparison to NABIL and BOKL.
- ) To analyze the relationship between loan and advance and total investment with other financial variable of EBL and compare with NABIL and BoKL.
- ) To study the various risks in investment of EBL in comparison to NABIL and BoKL.

Her major findings:

- ) EBL has higher idle cash and bank balance. It may decrease profit of bank.
- ) It is good to invest more on share and debenture as it encourages financial and economic development of the country.
- ) Portfolio condition of a bank should be regularly revised from the time to time.
- ) EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor’s fund.
- ) On the basis of the above facts, it is seen that EBL has invested much of its fund in total outside assets but it has not achieved the desired result.
- ) The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are rightly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle.

Shah S (2009) made “*A study on Investment and loan pattern of Nepalese commercial banks* ”with reference to Nepal SBI Bank Limited, Everest Bank Limited and

*Standard chartered Bank Nepal Limited*. Her main objectives were as follows:

- ) To evaluate the situation of deposit and investment pattern of the commercial banks with reference to Nepal SBI Bank Limited, Everest bank Limited, and Standard chartered Bank Nepal Limited.
- ) To analyze the liquidity position of the sample bank.
- ) To analyze the empirical relationship between deposits, loan and advances, investment, and compare them between three banks under study.

From her study she found that:

- ) NSBI, EBL and SCBNL bank has highly fluctuating deposit collections, loan and advances and investment pattern during period of study.
- ) The mean ratio of cash and bank balance to deposit ratio and investment on government securities to current asset ratio of SCBNL is better than EBL and NSBI.
- ) The investment on loan and advances to current asset ratio and investment on shares and debentures to working fund ratio of EBL is higher than NSBI and SCBNL.
- ) Return on loan and advance of NSBI is lower than EBL and SCBNL.
- ) There is no significant difference between mean ratio investment on government securities to current assets and total investment to total deposit of those three sample banks.

Thapa M (2010) conducted “*A study on investment analysis of commercial banks in Nepal with reference to Nepal Investment bank, Himalayan bank, Nepal SBI bank, Everest Bank and Bank of Kathmandu*” with the objectives of:

- ) To analyze the present position of commercial banks with regarding investment policy.
- ) To analyze investment trend and their projection of selected commercial banks.
- ) To identify investment sector of selected commercial banks.
- ) To access the impact of investment policy on performance.
- ) To make the suggestions and recommendation of the study.

The study was conducted through secondary data. The research findings of the study are as follows:

- ) The mean ratio of HBL in investment to total commercial banks is higher than others sample banks.
- ) NSBIL has invested most of their fund in government securities than other banks.
- ) The mean ratio of Investment of Total Deposit and mean ratio of total investment to total assets ratio of HBL is higher than other banks.
- ) The mean ratio of Investment plus loan and advance to deposit ratio and investment on government securities to total assets ratio of NSBL is higher than other banks.
- ) The mean ratio of investment on share and debenture to total asset ratio of BoKL is higher than other banks.
- ) Growth ratio of Investment of HBL and growth ratio of deposits of EBL is higher than that other banks.
- ) From the Statistical Analysis of financial data of banks it is found that Total Investment and Total deposit of all five banks has positive relation. And co-relation of co-efficient between deposit and investment of all five banks are significant and the value of co-efficient of determination ( $r^2$ ) of NIBL is higher than other banks.
- ) Total investment of five banks is also in increasing trend.
- ) Less people want to take business loan from bank..Political environment is not suitable for investment in Nepal and there is not more investment sector.

Naral D. B (2010) conducted a study on “*Deposit and Investment Pattern of the Commercial Banks*” with reference to *SBI Bank Limited, Everest Bank Limited, Standard Chartered Bank Limited* with the objectives of :

- ) To analyze the relationship between deposits, loan and advances, investment, net profit and compare between the banks under study.
- ) To analyze impact of loan and investment in profit under study period
- ) To suggest and recommend some measures for fund mobilization and investment policy.

The study was conducted through secondary data. The research findings of the study are as follows:

- ) Aggregate deposits are highly fluctuating during the study period
- ) The deposit structure, loan and advances, investment of all bank shows the fluctuating trend during the study period.
- ) The mean ratio of cash and bank balance to deposit ratio of SCBNL is slightly higher than NSBL and EBL. It states that the liquidity position of SCBNL is better in this regard. Similarly the ratio of SCBNL is more variable and less consistent than that of others.
- ) The mean ratio of investment on government securities to current asset ratio of SCBNL has been found higher than that of EBL and NSBL.
- ) The mean ratio of loan and advances to current asset of EBL is higher than that of SCBNL and NSBL. But ratios of SCBNL are more variable.
- ) The loan and advances to working fund ratio of EBL and NSBL are almost similar and SCBNL is lowest. But ratios of SCBNL are more variable than that of NSBL and EBL.
- ) The mean ratios of investment on government securities to working fund ratio and co-efficient of correlation between deposit and investment of SCBNL is greatest among the three banks. On the other hand ratio of SCBNL is less variable than that of NSBL and EBL. The ratio of NSBL is lowest but most variable.
- ) EBL has maintained slightly higher mean ratio of investment on shares and debentures to working fund ratio.
- ) The mean ratio of return on loan and advances of NSBL is lower than that of EBL and SCBNL.
- ) There is no significant difference between mean ration of total investment and total deposit, investment on government securities to current assets and investment on government securities to total working fund of NSBL, EBL and SCBNL.
- ) The net profit on total deposit is positive in simple regression equation in case of SCBNL and negative in NSBL and EBL.
- ) Simple regression of total investment on total deposit is negative. It

reveals that banks are not utilizing all deposits to investments. They diversify deposits in various sector.

## **2.5 Research Gap**

By the revision of above mentioned studies, it is found that different studies have different area of coverage. The author focuses this study in effectiveness on investment analysis of Nepal Standard Chartered Bank, Nabil Bank, Everest Bank and Nepal SBI Bank Ltd, comprehensive manner considering the major items. Some researchers have not focused on financial analysis and some others have not considered statistical analysis such as correlation, trend analysis etc. Furthermore, some researchers have made their studies on one or two simple only, in this contest, present study is different from these previous studies as researcher has used statistical tools (correlation coefficient, trend analysis) of four simple banks and tried to indicate the effectiveness of investment analysis of concern banks.. In sum this study is different than the others related studies according to sampling procedure and size, methodology and mainly objectives.

## **CHAPTER –III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. Research methodology describes the methods and process applied in the entire subject of the study. This chapter attempts to have an insight into the Investment policy adopted by SCBNL, NABIL, EBL and Nepal SBI bank.

##### **3.1.1 Research Design**

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. (Kerlinker: 1996: 300)

By research design we mean an overall framework or plan for the collection and analysis of data. (Wolff and Pant: 2003: 74)

To achieve the objectives of this study, descriptive and analytical research design has and descriptive techniques have been adopted to evaluate investment performance of SCBNL, NABIL, Nepal SBI and EBL.

##### **3.1.2 Sources of Data**

Mainly, the study is conducted on the basis of the secondary data. The data required for the analysis are directly obtained from the balance sheet and the P/L account of the concerned bank's annual reports. Supplementary data and information are collected from the number of institutions and regulating authorities like NRB, SEBON, NEPSE, Economic Survey and national planning commission etc. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal talks with the concerned authorities of the banks were also helpful to obtain the additional information of the related problem. Likewise, various data and information are collected from the economic journals, prospectus, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

### **3.1.3 Population and Sample**

The limitation of time and unavailability of the relevant data has forced me to make research on the SCBNL, NABIL, EBL and Nepal SBI only even though there are 32 commercial banks established in Nepal which is selected from the population.

## **3.2 Methods of Data Analysis**

In the study, various financial, accounting and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as percentage graph, Karl Pearson's Coefficient of correlation are used in the study. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis. The various tools applied in this study, have been briefly presented as under.

### **3.2.1 Financial Tools**

Financial tools are used to examine the financial strength and weakness of bank. In this study financial tools like ratio analysis and financial statement analysis have been used.

#### **Ratio Analysis:**

Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decision. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's or to it. The qualitative financial performance of a firm can be done with help of ratio analysis. Even though, there are many ratios, only those ratios have been covered in this study, which are related to the Investment operation of the bank. This study contains following ratios.

#### **1. Ratio of Commercial Banks Investment to Sample Bank Investment.**

Total commercial banks Investment to sample banks Investment ratio is used to analysis how much Investment has cover by the sample bank Investment. It is derived by following equation.

Total Commercial Banks Investment to Sample Banks

$$\text{Investment ratio} = \frac{\text{Sample Bank Investment}}{\text{Total Commercial Banks}}$$

## **2. Segregation of Total Investment of Sample Banks.**

It is used to analyze how the sample banks have invested its collected funds. Banks generally invests in government securities, share and debentures of other companies and NRB bond. An attempt is made to analyze how much percentage is invested by the banks in different sectors. The following equation is used for this purpose.

$$\text{I. Total Investment to govt. sec. Investment} = \frac{\text{Investment on Government Security}}{\text{Total Investment}}$$

$$\text{II. Total Investment to share \& Debenture} = \frac{\text{Investment on Share \& Debenture}}{\text{Total Investment}}$$

$$\text{III. Total Investment to NRB Bond} = \frac{\text{Investment on NRB Bond}}{\text{Total Investment}}$$

$$\text{IV. Total Investment to Other} = \frac{\text{Investment on Other Sector}}{\text{Total Investment}}$$

## **3. Asset Management Ratio**

Asset management ratio measures how efficiently the bank manages the resources at its command. The following ratios are used under this assets management ratio.

### **a. Investment to Total Deposit Ratio**

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on Investment in government securities and shares debentures of other companies and bank. The ratio can be calculated by dividing total Investment by total deposit. It can be expressed as follows

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

Total Investment consists of Investment on government securities, Investment on share and debentures, bond of other companies and other Investment.

**b. Investment Plus Loan and Advances to Total Deposit Ratio**

Loan and advances can also be regarded and Investment of banks. Investment as well as loan and advances both are done to generate income for the bank. Investment plus loan and advances to Total deposit ratio is calculated out, how successfully the banks are utilizing their total deposits on loan and advances for profit generating purpose. Greater ratio implies the better utilizing of total deposits. This ratio can be obtained by dividing Investment plus loan and advances by Total deposits, which can be states as,

Investment plus Loan & Advances to

$$\text{Total Deposit Ratio} = \frac{\text{Investment} + \text{Loan \& Advances}}{\text{Total Deposit}}$$

**c. Total Investment to Total Asset Ratio**

Investment is major component in the total working fund which indicates the ability of bank to channelize its deposits in the form of loan and Investment to earn high return. Investment and loan and advances are the only income generating source of bank. This ratio can be computed by dividing total of Investment, Loan and advances by total Assets. This can be stated as follows:

$$\text{Total Investment to Total Assets ratio} = \frac{\text{Total Investment}}{\text{Total Assets}}$$

Here, total Investment includes Investment on government securities, share and debentures of other company, other Invest5ment and loan and advances. And total assets includes all assets of balance sheet, in other words, this includes current assets, net fixed assets, loans and development banks and other miscellaneous assets but exclude off balance sheet items like letter of credit, letter of guarantee etc.

**d. Investment on Government Securities to Total Assets Ratio**

Government securities are the safest place to invest the collected fund. Most of the commercial banks invest on securities issued by the government. Some banks do not invest sufficient funds in government securities. Others borrow frequently and thus lower the liquidity ratio.

Investment on government securities to total assets is calculated to find out the percentage of assets invested in government securities. This ratio is calculated by dividing Investment on government securities by Total assets. This is presented as,

Investment on government securities to

$$\text{total assets ratios} = \frac{\text{Investment on Government Securities}}{\text{Total Assets}}$$

**e. Investment on Shares and Debentures to Total Assets Ratio**

Commercial banks hold shares of the other companies also. This ratio shows the banks Investment in shares and debentures of the subsidiary and other companies. This ratio can be derived by dividing Investment on shares debentures by total Assets. It can expressed as,

Investment on share and Debentures to

$$\text{Total Assets ratio} = \frac{\text{Investment on Share \& Debentures}}{\text{Total Asset}}$$

**4. Growth Ratio**

Growth ratio represents how well the CBs are marinating their economic and financial status. Higher the ratio, better the executing of the bank and vice-versa. Under this title, three types of ratio are studied. They are directly related to the fund mobilization and investment of CB. These ratios are:

- a) Growth Ratio of Total Investment
- b) Growth ratio of Deposits
- c) Growth Ratio of Loan and Advances

**5. Capital Adequacy Ratio (CAR)**

CAR measure the relationship with the total capital fund & total risk weighted assets and also measures the bank's capital. This ratio measure whether the firm has maintained sufficient capital or not. The ratio is tested to ensure the safety and stability of the firm in the long run. By virtue of the capital adequacy norm the banks have to assess their risk assets and maintain a minimum amount of capital. It serves to protect depositors and maintain stability & efficiency of the financial system. This is the basic purpose of the capital adequacy norms.

According to NRB directives, Commercial banks in Nepal have to maintain 11% Capital Adequacy Ratio (CAR). Thus this parameter indicates whether a particular bank has enough to absorb unexpected losses. It is calculated as follows:

$$\text{Capital adequacy ratio} = \frac{\text{Capital Fund}}{\text{Risk Weighted Asset}}$$

#### **6. Loan Loss Provision Ratio (LLPR)**

Banks provides the loan and advances to other industries from the public deposits and enjoys the profit. Since, bank rotates the public money and generates the profit. It is also its liabilities to safeguard the public deposits. Thus, to ensure the public for the safe of their deposit loan loss provision is kept. Loan loss provision ratio determines the provision made in terms of total loan provided in a particular year. LLPR is calculated as follows:

$$\text{Loan Loss Provision Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan}} \times 100$$

#### **7. Credit Risk Ratio (CRR)**

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to that bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. Credit risk ratio is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Assets}}$$

### **3.2.2 Statistical Tools**

Some important tools are used to achieve the objective of this study. The statistical tools that are used for data analysis in this study are:

#### **1. Trend Analysis**

Trend analysis describes the average relationship between two series where the one series relates to time and other series to the value of a variable. It is an analysis of a firm's financial ratios over time. This measures the change of data over a period of time. This reveals whether the firm's ratio are improving or deteriorating over time. Under segment, current and projected trend, total investment, total deposit and total loan are calculated.

- a) Trend analysis of Total Investment plus Loan & Advances
- b) Trend analysis of Total Deposits

**2. Co-efficient of Variations (C.V.)**

The co-efficient of variation is the corresponding relative measure of dispersion, comparable across distribution, which is defines as the ration of the standard deviation to the mean expressed in resulting percentage. It is used in such problems where we want to command the variability of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable, or less homogeneous. on the other hand, the series for which co-efficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogenous. We can denote this by following formula:

$$\text{Coefficient of Variation} = \frac{\text{Standard deviation}}{\text{Mean}} \times 100$$

**3. Co-efficient of Correlation (r)**

Correlation is the states statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1, when  $r = +1$ , it means there is perfect relationship between two variables and vice versa. When  $r=0$ , it means there is no relationship between two variables. The Pearson's formula is:

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

Where,

$r$  = coefficient of correlation

$x$  = independent variable =  $f_x Z_x \bar{A}$

$y$  = dependent variable =  $f_y Z_y \bar{A}$

$n$  = no. of periods

#### 4. Coefficient of Determination ( $r^2$ ) :

The coefficient of determination is a measure of the degree of linear association or correlation between two variables one of which happens to be independent and other being dependent variable. In other words coefficient of determination measures the percentage total variation independent variables explained by independent variables. Zero to one is the ranging measurement of this coefficient of multiple determinations. If  $r^2$  is equal to 0.75, which indicates that the independent variables used in, regression model explained 75% of the total variation in the dependent variable. If the regression line is a perfect estimator  $r^2$  will be equal to +1, when there is no correlation, the value of  $r^2$  is zero.

#### 5. Probable Error of the Coefficient of Correlations (P. E .r)

After the calculation of co-efficient of correlation the next thing is to find out the extent to which it is dependable. The probable error is a measure of as certainty of the value of a person's coefficient of correlation. For this purpose the probable error of the coefficient of correlation is calculated. If the probable error is added to and subtracted from the co-efficient of correlation it would give two such limits with in which we can reasonably accept the value of co-efficient of correlation to vary. The formula for finding out the probable of error of the Karl Pearson's co-efficient of correlation is:

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

Where,

P.E.r = probable error of co-efficient of correlation

r = co-efficient of correlation

n = number of pairs of observations

In order to conclude whether the co-efficient of correlation is significant or not. The following points would be kept in mind.

- ) If the co-efficient of correlations is less than its probable error, it is not at all significant.
- ) If the co-efficient of correlations is more than six times of probable error it is definitely significant.

) If the probable error is not much and if the co-efficient of correlation is 0.5 or more it is generally to be significant.

**6. Arithmetic Mean**

Arithmetic mean is the sum of all observations divided by the number of observations. The arithmetic mean is denoted by  $(\bar{X})$ . It is computed as:

$$\text{Arithmetic mean } \bar{X} = \frac{\sum X}{n}$$

Arithmetic Mean is calculated to find the mean of the financial ratio.

**7. Standard Deviation**

Standard Deviation is calculated to measures dispersion. It is computed as:

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

**8. Co-Variance (C.V.)**

Co-Variance is calculated to find variance from the mean. It is computed as:

$$\text{C.V.} = \frac{\sigma}{\bar{X}}$$

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter is concerned with financial analysis and statistical analysis that is concerned about comparative analysis and interpretation of available data. Data are collected from various secondary sources. Various financial and statistic tools have been used in this part. Necessary figures and tables are also presented in this part to describe about the Investment mechanism of the banks. For this purpose, interpretations are categorized into two heading:

1. Analysis of Financial Ratio
2. Analysis of Statistical Ratio

#### **4.1 Analysis of Financial Ratio**

Here in, appropriate ratios are calculated and proper interpretations are made. The analysis of the financial ratios verifies the performance of the concerned banks.

##### **4.1.1 Ratio of Commercial Banks Investment to Sample Banks Investment**

###### **4.1.1.1 Ratio of SCBNL Investment to Total Commercial Banks Investment**

This ratio indicates the portion of Investment made by Standard Chartered Bank Nepal to total Investment made by commercial banks of Nepal. It shows how much Standard Chartered Bank Nepal is directly involved in Investment. And the ratio is derived by dividing Investment made by SCBNL by Total Investment made by commercial banks.

**Table No.1.a**

**Total Commercial Banks Investment to SCBNL Investment Ratio**

(Rs. in millions)

<b>Year</b>	<b>Total Investment of commercial banks</b>	<b>SCBNL Investment</b>	<b>Ratio (%)</b>
2063/64	93531	13564	14.50
2064/65	108955	13903	12.76
2065/66	130857	20236	15.46
2066/67	134041	19848	14.81
2067/68	149557	17259	11.54
<b>Mean</b>			<b>13.81</b>
<b>S.D</b>			<b>1.45</b>
<b>C.V.</b>			<b>0.15</b>

(Source: Banking and Financial Statistics, NRB and annual report of SCBNL)

Above table shows the Investment made by all commercial banks and by SCBNL bank alone. From the above table it shows that portion of Investment made by SCBNL is increasing in first 3 years and then decreasing. There is fluctuation in investments in every year. In the FY 2065/66 the ratio is almost 15.46%, which is optimum. The mean ratio is 13.81 during the study period.

**4.1.1.2 Ratio of NABIL Investment to Total Commercial Banks Investment**

This ratio indicates the portion of Investment made by Nabil bank to total Investment made by commercial banks of Nepal. It shows how much Nabil bank is directly involved in Investment. And the ratio is derived by dividing Investment made by NABIL by Total Investment made by commercial banks.

**Table No.1.b**

**Total Commercial Banks Investment to NABIL Investment Ratio**

(Rs in millions)

<b>Year</b>	<b>Total Investment of commercial banks</b>	<b>NABIL Investment</b>	<b>Ratio (%)</b>
2063/64	93531	8952	9.57
2064/65	108955	9967	9.15
2065/66	130857	10875	8.31
2066/67	134041	13612	10.16
2067/68	149557	13081	8.75
<b>Mean</b>			<b>9.19</b>
<b>S.D</b>			<b>0.69</b>
<b>C.V.</b>			<b>0.075</b>

(Source: Banking and Financial Statistics, NRB)

Above table shows the Investment made by all commercial banks and by NABIL bank alone. From the above table it shows that portion of Investment made by NABIL is increasing every year except in FY 2067/68. In the FY 2066/67 the ratio is almost 10.16%, which is optimum among them. The mean ratio is 9.19% during the study period.

**4.1.1.3 Ratio of EBL Investment to Total Commercial Banks Investment**

This ratio indicates the portion of Investment made by EBL to total Investment made by commercial banks of Nepal. It shows how much EBL has invested. The ratio is derived by dividing Investment made by EBL by Total Investment made by commercial banks.

**Table No.1.c**

**Total Commercial Banks Investment to EBL Investment Ratio**

(Rs in millions)

<b>Year</b>	<b>Total Investment of commercial banks</b>	<b>EBL Investment</b>	<b>Ratio (%)</b>
2063/64	93531	4985	5.33
2064/65	108955	5061	4.65
2065/66	130857	5950	4.55
2066/67	134041	5010	3.74
2067/68	149557	7744	5.17
<b>Mean</b>			<b>4.69</b>
<b>S.D</b>			<b>0.59</b>
<b>C.V.</b>			<b>0.13</b>

(Source: Banking and Financial Statistics, NRB)

Above table shows the Investment made by all commercial banks and by EBL alone. From the above table it shows that portion of Investment made by EBL is fluctuating during the study period. The mean ratio is 4.69 during the study period. The optimum among them is in fiscal year 2063/64 is 5.33%.

**4.1.1.4 Ratio of NSBI Investment to Total Commercial Banks Investment**

This ratio indicates the portion of Investment made by NSBI to total Investment made by commercial banks of Nepal. It shows how much NSBI has invested. The ratio is derived by dividing Investment made by NSBI by Total Investment made by commercial banks.

**Table No.1.d**

**Total Commercial Banks Investment to NSBI Bank Investment Ratio**

(Rs in millions)

<b>Year</b>	<b>Total Investment of commercial banks</b>	<b>NSBI Investment</b>	<b>Ratio (%)</b>
2063/64	93531	2378	2.54
2064/65	108955	3147	2.89
2065/66	130857	13286	10.15
2066/67	134041	16255	12.13
2067/68	149557	18911	12.65
<b>Mean</b>			<b>8.07</b>
<b>S.D</b>			<b>4.45</b>
<b>C.V.</b>			<b>0.55</b>

(Source: Banking and Financial Statistics, NRB)

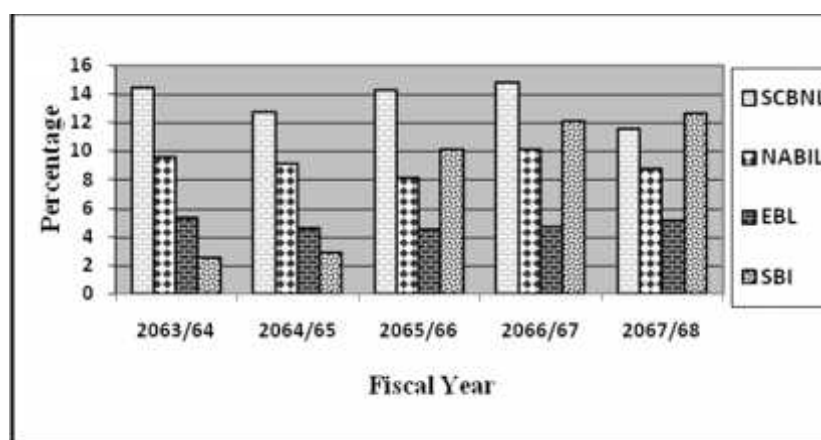
Above table shows the Investment made by all commercial banks and by NSBI alone. From the above table it shows that portion of Investment made by NSBI is increasing every year. The mean ratio is 8.07 during the study period.

Above table no. 1.a to 1.d shows that SCBNL covers more percentage than other 3 banks and NSBI and EBL bank covers less percentage than other banks on investment made by total commercial banks. Mean of the ratios of SCBNL Investment is also higher than that of other banks. Similarly the standard deviation and coefficient of variation between the ratio of NSBI Investment to total commercial bank Investment is comparatively higher that of other banks. It means there is more variability in Investment in NSBI than others. It is due to higher rate of fluctuations of Investment pattern in NSBI Bank.

**Figure No. 1:**

**Total Commercial Banks Investment to Total Investment Ratio**

(Rs. in millions)



**4.1.2 Segregation of Investment**

**4.1.2.1 Segregation of Investment of SCBNL Bank**

SCBNL invest its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies and NRB bonds. Here an attempt is made to segregate the Investment made by SCBNL.

**Table No. 2.a**

**Segregation of Investment of SCBNL**

(Rs. In millions)

Year	Investment	Gov. Sec.	%	Shares and debentures	%	NRB Bond	%	Other	%
2063/64	13564	7115.7	52.46	44.9	0.33			6403.4	47.21
2064/65	13903	8137.6	58.53	0	0.00			5756.7	41.47
2065/66	20236	9998.8	53.64	333.1	1.79			8300.1	44.57
2066/67	19848	8531.5	42.99	462.5	2.33			10845	54.68
2067/68	17259	9957.3	57.69	85.01	0.49			7207.9	41.76

(Source: Banking and Financial Statistics, No56 NRB)

Above table show the Investment made by SCBNL in different sectors. SCBNL is found to invest its fund in Government securities, shares and debenture of other industries, and others. From the FY 2063/64 to 2067/68 Investment in Government Securities, investment in share and debentures of other companies and investment in other sector also in fluctuating trends.

#### 4.1.2.2 Segregation of Investment of NABIL Bank

NABIL invest its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies, NRB bonds and other sector. Here an attempt is made to segregate the Investment made by NABIL.

**Table No.2.b**  
**Segregation of Investment of NABIL**

(Rs. In millions)

Year	Investment	Gov. sec	%	Shares and Debenture	%	NRB Bond	%	Others	%
2063/64	8952	4805.7	53.68	71.6	0.80			3521.5	45.52
2064/65	9967	4646.9	46.62	81.8	0.82			4995.2	52.55
2065/66	10875	3706.2	34.08	161.7	1.49			6734.6	64.43
2066/67	13612	7941.3	58.34	92.7	0.68			5578.1	40.98
2067/68	13081	8742.3	66.83	3663.3	28.0			434.5	3.32

(Source: Banking and Financial Statistics, No56, NRB)

Above table show the Investment made by NABIL in different sectors. NABIL is found to invest its fund in Government securities, shares and debenture of other industries, NRB bond and others. From the FY 2063/64 to 2067/68 the investment in Government Securities, share and debentures of other companies and invest in other sectors have fluctuation trend.

#### 4.1.2.3 Segregation of Investment of EBL Bank

EBL invests its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies, NRB bonds and other sector. Here an attempt is made to segregate the Investment made by EBL.

**Table No.2.c**  
**Segregation of Investment of EBL**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Gov. sec</b>	<b>%</b>	<b>Shares and Debenture</b>	<b>%</b>	<b>NRB Bond</b>	<b>%</b>	<b>Others</b>	<b>%</b>
2063/64	4985	4704.6	94.37	6.5	0.13			274	5.50
2064/65	5061	4906.5	96.95	16.2	0.32			138.4	2.73
2065/66	5950	5146	86.49	102	1.71			702	11.80
2066/67	5010	4354.4	86.92	363.8	7.26			291.7	5.82
2067/68	7744	7145	92.26	313	4.04			287.5	5.82

(Source: Banking and Financial Statistics, No56, NRB)

Above table show the Investment made by EBL in different sectors. EBL is found to invest its fund in Government securities, shares and debenture of other industries. Most of its fund is investment in government securities and less in share debenture of other industries. Its investments is also in fluctuation trend.

#### **4.1.2.4 Segregation of Investment of NSBI**

NSBI bank invests its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies, NRB bonds and other sector. Here an attempt is made to segregate the Investment made by NSBI.

**Table No.2.d**  
**Segregation of Investment of NSBI**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Gov. sec</b>	<b>%</b>	<b>Shares and Debenture</b>	<b>%</b>	<b>NRB Bond</b>	<b>%</b>	<b>Others</b>	<b>%</b>
2063/64	2378	2345.6	98.66	31.9	1.34	0	0.00	0	0.00
2064/65	3147	3093.6	98.31	53.3	1.69		0.00	0	0.00
2065/66	13286	3306.6	24.89	32.9	0.25	0	0.00	9946.7	74.86
2066/67	16255	4313.3	22.89	37	0.23	592.7	3.64	11904.8	73.24
2067/68	18911	5574.8	29.48	13296.5	70.31	0	0.00	39.7	0.21

(Source: Banking and Financial Statistics, No-56, NRB)

Above table show the Investment made by NSBI in different sectors. NSBI is found to invest its fund in Government securities, shares and debenture of other industries. Most of its fund is investment in government securities in previous year but latter it has used in share and debenture of other industries.

### **4.1.3 Asset Management Ratio**

A commercial bank must be able to manage its assets very well to earn high profit, to satisfy its customers and for its own existence. Asset management ratio measures how efficiently, the bank manages the resources at its commands.

#### **4.1.3.1 Ratio of Total Investment to Total Deposit**

A commercial bank may finance its deposit fund to small industries building up of bank credit depends upon mutual connections and relationship between the banks and the customers. Banks needs to satisfy themselves regarding the technical knowledge and capacity for hard and sustained work on the part of borrows and the quality and marketability of the goods produced by them. Therefore commercial banks may mobilize its bank deposit by investing its fund in different securities issued by government and other financial or non-financial companies. Now effort has been made to measure the extent to which the banks are successful in mobilizing the total deposits on Investment.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement, central bank's norms etc. are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as Investment and vice versa. This ratio is calculated by dividing total Investment by total deposit.

**Table No.3.a****Total investment to Total Deposit Ratio of SCBNL**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Deposit</b>	<b>Ratio (%)</b>
2063/64	13564	24640	55.05
2064/65	13903	29744	46.74
2065/66	20236	35350	57.25
2066/67	19848	35183	56.41
2067/68	17259	37999	45.42
<b>Mean</b>			<b>52.17</b>
<b>S.D.</b>			<b>5.04</b>
<b>C.V.</b>			<b>0.097</b>

(Source: Banking and Financial Statistics, No-56, NRB)

The table shows the investment and deposit ratio of SCBNL. From the FY 2063/64 to 2067/68 the investment and deposits are in increasing trend but in 2066/67 both amount decreased. The average ratio of total investment to total deposit is 52.17, standard deviation is 5.04 and co-efficient of variation is 0.097 percent.

**Table No.3.b****Total Investment to Total Deposit Ratio of NABIL**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Deposit</b>	<b>Ratio (%)</b>
2063/64	8952	23342	38.35
2064/65	9967	31915	31.23
2065/66	10875	37348	29.12
2066/67	13612	46335	29.38
2067/68	13081	49691	26.32
<b>Mean</b>			<b>30.88</b>
<b>S.D.</b>			<b>4.05</b>
<b>C.V.</b>			<b>0.13</b>

(Source: Banking and Financial Statistics, No-56, NRB)

The table shows the investment and deposit ratio of NABIL. From the FY 2063/64 to 2067/68 the deposit is going on increasing trend. But investment to deposit ratio is in decreasing trend. The average ratio of total investment to total deposit is 30.88, standard deviation is 4.05 and co-efficient variation is 0.13 percent.

**Table No.3.c**  
**Total Investment to Total Deposit Ratio of EBL**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Deposit</b>	<b>Ratio (%)</b>
2063/64	4985	19098	26.10
2064/65	5061	23976	21.11
2065/66	5950	33323	17.86
2066/67	5010	36932	13.57
2067/68	7744	44128	17.48
<b>Mean</b>			<b>19.22</b>
<b>S.D.</b>			<b>4.19</b>
<b>C.V.</b>			<b>0.22</b>

(Source: Banking and Financial Statistics, No-56, NRB)

Above table shows the investment and deposit ratio of EBL. From the FY 2063/64 to 2067/68 the investment and deposit goes on increasing trend up to FY 2065/66 except investment of FY 2066/67. The average ratio of total investment to total deposit is 19.22, standard deviation is 4.19 and co-efficient variation is 0.22 percent.

**Table No.3.d**  
**Total Investment to Total Deposit Ratio of NSBI**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Deposit</b>	<b>Ratio (%)</b>
2063/64	2378	11445	20.77
2064/65	3147	13715	22.94
2065/66	13286	27957	47.52
2066/67	16255	34896	46.58
2067/68	18911	42415	44.59
<b>Mean</b>			<b>36.48</b>
<b>S.D.</b>			<b>11.99</b>
<b>C.V.</b>			<b>0.33</b>

(Source: Banking and Financial Statistics, pg-24, NRB)

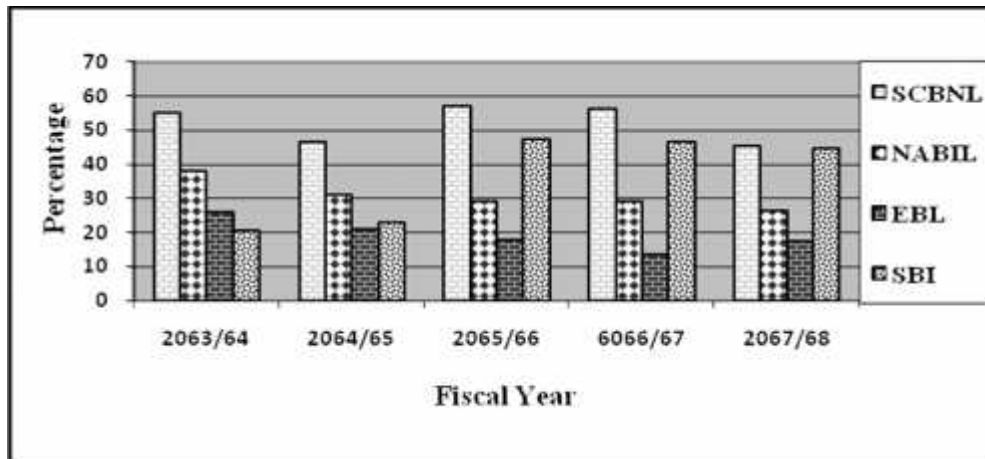
Above table shows the investment and deposit ratio of NSBI. From the FY 2063/64 to 2067/68 the investment and deposit goes on increasing trend. The average ratio of total investment to total deposit is 36.48, standard deviation is 11.99 and coefficient of variation is 0.33 percent.

From the above tables 3a. to 3d. reveals that SCBNL has higher Investment to deposit ratio than of other sample banks. The mean ratio of SCBNL is higher than that of other Banks but EBL has lower mean ratio than other Banks. Therefore, it is clear that SCBNL's capacity to mobilize its deposits on Investment is better than that of other Banks. On the other hand, observing the C.V. of ratios, we can further conclude that ratio of SCBNL less consistent than that of other Banks because of its higher C.V. i.e. 0.97. In conclusion, it can be said that SCBNL is successful in utilizing its resources on Investment than that of other Banks. But its investment pattern is in fluctuation than that of other banks.

**Figure No. 2**

**Total Investment to Total Deposit Ratio**

(Rs. in millions)



**4.1.3.2 Ratio of Total Investment plus Loan and Advance with Deposits**

Loan and Advancement is also another type of Investment of banks. Since the major functions of commercial banks are of deposits collection and lending, it is very important to have a look at the credit to deposit ratio. Lending is a high risk Investment for a bank and the main income source of the bank is also the interest earned from loan and advances. This ratio actually measures the extent to which the banks are successful to mobilize the total deposits on Investment plus loan and advances for the purpose of profit generation. A high ratio of Investment plus loan and advancement indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio may not be better from its liquidity point view. This ratio is calculated by dividing total Investment plus loan & advances by total deposits. The following table exhibits the ratio of total Investment plus loan and advancement to total deposits of SCBNL, NABIL, EBL and NSBI.

**Table No. 4.a.**

**Total Investment plus Loan and Advances to Deposits ratio of SCBNL**

(Rs in millions)

<b>Year</b>	<b>Investment + Loan &amp; Advances</b>	<b>Deposits</b>	<b>Ratio (%)</b>
2063/64	24102	24640	97.82
2064/65	27621	29744	92.86
2065/66	33916	35350	95.94
2066/67	35803	35183	101.76
2067/68	35685	37999	93.91
<b>Mean</b>			<b>96.46</b>
<b>S.D.</b>			<b>3.15</b>
<b>C.V.</b>			<b>0.03</b>

(Source: Annual report SCBNL 2067/68, p no-95)

The investments plus loan and advances to deposits ratio of SCBNL is in good position because it uses 96.46% in average which indicates maximum utilization of deposits and as well as maintaining liquidity. Its standard deviation is 3.15 and coefficient of variation is 0.03.

**Table No. 4.b.**

**Total Investment plus Loan and Advances to Deposits ratio of NABIL**

(Rs in millions)

<b>Year</b>	<b>Investment + Loan &amp; Advances</b>	<b>Deposits</b>	<b>Ratio (%)</b>
2063/64	24609.1	23342	105.43
2064/65	31481.6	31915	98.64
2065/66	38691.6	37348	103.60
2066/67	46515	46335	100.39
2067/68	51846	49691	104.34
<b>Mean</b>			<b>102.48</b>
<b>S.D.</b>			<b>2.55</b>
<b>C.V.</b>			<b>0.025</b>

(Source: Banking and Financial Statistics, NRB)

The above table shows NABIL is mobilizing its full deposits which generate more profits but it also has maintained its liquidity. The mean value of investments plus loan and advances to total deposits is 102.48%, S.D 2.55 and C.V is.025.

**Table No. 4.c.**

**Total Investment plus Loan and Advances to Deposits ratio of EBL**

(Rs in millions)

<b>Year</b>	<b>Investment + Loan &amp; Advances</b>	<b>Deposits</b>	<b>Ratio (%)</b>
2063/64	<b>19044</b>	19098	99.72
2064/65	<b>23875</b>	23976	99.58
2065/66	<b>30316</b>	33323	90.98
2066/67	<b>33140</b>	36932	89.73
2067/68	<b>39278.7</b>	44128	89.01
<b>Mean</b>			<b>93.80</b>
<b>S.D.</b>			<b>4.80</b>
<b>C.V.</b>			<b>0.05</b>

(Source: Banking and Financial Statistics, NRB)

The mean ratio of investment plus loan and advances to deposits of EBL for sample year is 93.8%, standard deviation is 4.8, and coefficient of variation is 0.05.

**Table No. 4.d.**

**Total Investment plus Loan and Advancement to Deposits ratio of NSBI**

(Rs in millions)

<b>Year</b>	<b>Investment + Loan &amp; Advances</b>	<b>Deposits</b>	<b>Ratio (%)</b>
2063/64	12224	11445	106.81
2064/65	15722	13715	114.63
2065/66	28751	27957	102.84
2066/67	34142	34896	97.84
2067/68	40568	42415	95.65
<b>Mean</b>			<b>103.55</b>
<b>S.D.</b>			<b>6.77</b>
<b>C.V.</b>			<b>0.06</b>

(Source: Banking and Financial Statistics, NRB)

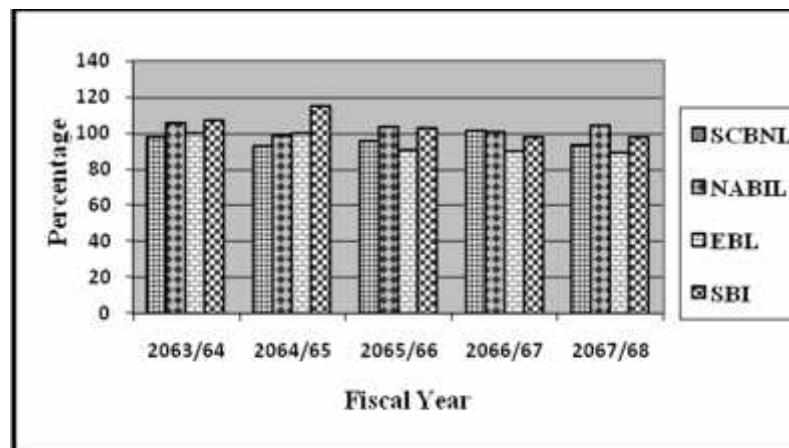
The mean ratio of investment plus loan and advances to deposits of NSBI for sample year is 103.55%, standard deviation is 6.77, and coefficient of variation is 0.06

Above table 4a to 4d shows that the ratio of total investment plus loan and advances to deposit. NSBI has maintained higher ratio than other banks likewise SCBNL, NABIL and EBL have got less ratio. A higher ratio of Investment plus Loan & Advances indicates the better mobilization of its collected deposit & vice-versa. From point of view of liquidity, NSBI is too low than other banks likewise SCBNL, NABIL and EBL. The average ratio of NSBI is 103.55, SCBNL is 96.46, NABIL is 102.48, and EBL is 93.80 percent. C.V of NSBI is higher than other banks which mean that ratio of that Bank is more variable than other banks.

**Figure No. 3:**

**Total investment plus Loan and Advancement to Deposits ratio**

(Rs in millions)



**4.1.3.3 Ratio of Total Investment to Total Asset**

A commercial bank’s working fund should play very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on Investment for the purpose of income generation. A high ratio indicates a better mobilization of fund as Investment and vice-versa. This ratio is calculated by dividing total Investment by total assets i.e. total working fund. The following table exhibits the ratio of Investment to total assets of SCBNL, NABIL, EBL and NSBI.

**Table No. 5.a****Total Investment to Total Assets Ratio of SCBNL**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	13564	<b>28597</b>	47.43
2064/65	13903	<b>33336</b>	41.71
2065/66	20236	<b>40066</b>	50.51
2066/67	19848	<b>40213</b>	49.36
2067/68	17259	<b>43811</b>	39.39
<b>Mean</b>			<b>45.68</b>
<b>S.D.</b>			<b>4.36</b>
<b>C.V.</b>			<b>0.09</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 5.b.****Total Investment to Total Assets Ratio of NABIL**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	8952	29660	30.18
2064/65	9967	38479	25.90
2065/66	10875	45942	23.67
2066/67	13612	54610	24.93
2067/68	13081	58099	22.52
<b>Mean</b>			<b>25.44</b>
<b>S.D.</b>			<b>2.63</b>
<b>C.V.</b>			<b>0.34</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 5.c.**  
**Total Investment to Total Assets Ratio of EBL**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	4985	23335	21.36
2064/65	5061	28566	17.72
2065/66	5950	38000	15.66
2066/67	5010	42053	11.91
2067/68	7744	46840	16.53
<b>Mean</b>			<b>16.64</b>
<b>S.D.</b>			<b>3.06</b>
<b>C.V.</b>			<b>0.18</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 5.d.**  
**Total Investment to Total Assets Ratio of NSBI**

(Rs in millions)

<b>Year</b>	<b>Investment</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	2378	15397	15.44
2064/65	3147	18594	16.92
2065/66	13286	31990	41.53
2066/67	16255	39381	41.28
2067/68	18911	46088	41.03
<b>Mean</b>			<b>31.24</b>
<b>S.D.</b>			<b>12.31</b>
<b>C.V.</b>			<b>0.39</b>

(Source: Banking and Financial Statistics, NRB)

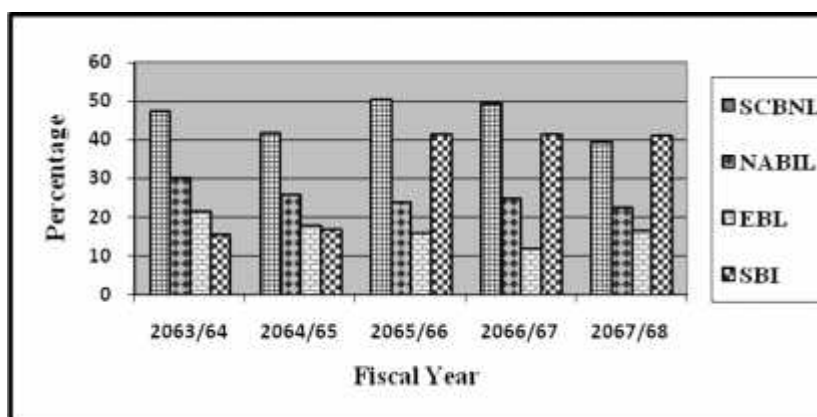
Above tables 5a. to 5d. Shows that the ratio of Total Investment to total asset. The average ratio of SCBNL is higher than other banks likewise NABIL, EBL and NSBI. The average ratio of SCBNL is 45.68, NABIL is 25.44, EBL is 16.64 and NSBI is 31.24 percentages. It means SCBNL has used more assets for investment and EBL has used fewer assets for investment than other banks. C.V. of NSBI is higher

and SCBNL is lower than other banks which means that ratio of NSBI is more variable than other banks. Similarly S.D of NSBI's ratio is greater than other banks which show that NSBI is operating in higher risk than other banks.

**Figure No. 4**

**Total Investment to Total Assets Ratio**

(Rs. in millions)



**4.1.3.4 Investment on Government Securities to Total Assets Ratio**

The commercial banks mostly invest its funds collected in various government securities issued by government because they consider them most liquid, that is, they can realize cash at short notice and without must loss in capital invested. And also such securities would serve as the basis for loan from the central bank at the bank rate. The government securities are the safest place to invest the funds. They can be easily sold in the market or they can be converted into the cash in other ways. But they are not so much liquid as cash and bank balance.

Here an effort is made to examine the position of a bank's total assets that is invested on different government securities. This ratio is very important to know the extent of which the banks are successful in mobilizing their total working fund on different types of government securities to maximize the income. All the deposits of the bank should not be utilized in loan and advances and other credit from security and liquidity point of view. Therefore, to some extent, commercial banks seem to be interested to utilize their deposits by purchasing government securities. A high ratio indicates better mobilization of fund as Investment on government securities and vice-versa. This ratio is calculated by dividing Investment on government securities by total assets. The following table shows the ratios of Investment on government securities to total working fund of SCBNL, NABIL, EBL and NSBI.

**Table No. 6.a.**

**Investment on Government Securities to Total Assets Ratio of SCBNL**

(Rs in millions)

<b>Year</b>	<b>Investment on government securities</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	7115.7	<b>28597</b>	24.88
2064/65	8137.6	<b>33336</b>	24.41
2065/66	9998.8	<b>40066</b>	24.95
2066/67	8531.5	<b>40213</b>	21.22
2067/68	9957.3	<b>43811</b>	34.81
<b>Mean</b>			<b>26.06</b>
<b>S.D.</b>			<b>4.59</b>
<b>C.V.</b>			<b>0.18</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 6.b.**

**Investment on Government Securities to Total Assets Ratio of NABIL**

(Rs in millions)

<b>Year</b>	<b>Investment on government securities</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	4805.7	29660	16.20
2064/65	4646.9	38479	12.08
2065/66	3706.2	45942	8.07
2066/67	7941.3	54610	14.54
2067/68	8742.3	58099	15.05
<b>Mean</b>			<b>13.19</b>
<b>S.D.</b>			<b>2.89</b>
<b>C.V.</b>			<b>0.22</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 6.c.****Investment on Government Securities to Total Assets Ratio of EBL**

(Rs in millions)

<b>Year</b>	<b>Investment on government securities</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	4704.6	23335	20.16
2064/65	4906.5	28566	17.18
2065/66	5146	38000	13.54
2066/67	4354.4	42053	10.35
2067/68	7145	46840	15.25
<b>Mean</b>			<b>15.29</b>
<b>S.D.</b>			<b>3.31</b>
<b>C.V.</b>			<b>0.22</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 6.d.****Investment on Government Securities to Total Assets Ratio of NSBI**

(Rs in millions)

<b>Year</b>	<b>Investment on government securities</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	2345.6	15397	15.23
2064/65	3093.6	18594	16.64
2065/66	3306.6	31990	10.34
2066/67	4313.3	39381	9.45
2067/68	5574.8	46088	12.10
<b>Mean</b>			<b>12.75</b>
<b>S.D.</b>			<b>2.77</b>
<b>C.V.</b>			<b>0.22</b>

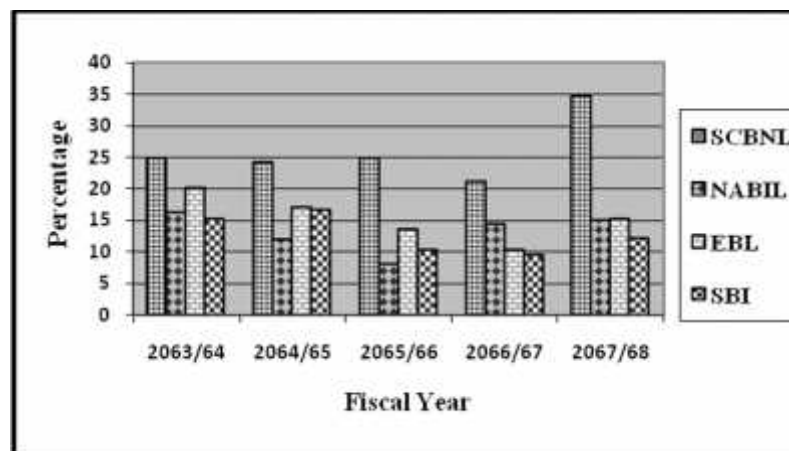
(Source: Banking and Financial Statistics, NRB)

Above table 6a. to 6d. Shows that the ratio of Investment on government securities to total assets. The average ratio of SCBNL is higher than other banks. Likewise NABIL, EBL and NSBI, it means SCBNL has mobilized their assets as

investment in government securities more than other banks. C.V of SCBNL is less than other banks and Likewise NABIL, EBL and NSBI has equal C.V, it shows that SCBNL ratio is less variable than other banks.

Therefore it can be said that, SCBNL has been able to mobilize its more assets by investing on government securities whereas NSBI has mobilized less assets on investing on government securities.

**Figure No. 5**  
**Investment on government Securities to Total Assets Ratio**  
 (Rs. In millions)



#### 4.1.3.5 Investment on Shares and Debentures to Total Assets Ratio

To study the Investment management of SCBNL, NABIL, EBL and NSBI total Investment has been separated into two parts i.e. Investment on government securities and Investment on shares and debentures. Nowadays, a commercial bank is interested to invest its fund not only on government securities but also in shares and debenture of other different types of companies. During the study period, most of the commercial banks of Nepal have found to purchase the share of other companies too.

Investment on shares and debentures to total assets ratio reflects the extent to which the banks are successful to mobilize their assets on purchase of shares and debentures of other companies to generate incomes and utilize their excess fund. A high ratio indicates more portion of Investment on shares and debentures out of total assets and vice-versa. This ratio is calculated by dividing Investment on share and debentures by total assets.

The following table shows the ratios of Investment on shares and debentures to total assets ratio of SCBNL, NABIL, EBL and NSBI.

**Table No. 7.a.**

**Investment on Share and Debentures to Total Assets Ratio of SCBNL**

(Rs in millions)

<b>Year</b>	<b>Investment on Share and Debentures</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	44.9	<b>28597</b>	0.16
2064/65	0	<b>33336</b>	0.00
2065/66	333.1	<b>40066</b>	0.83
2066/67	462.5	<b>40213</b>	1.15
2067/68	85.01	<b>43811</b>	0.19
<b>Mean</b>			<b>0.47</b>
<b>S.D.</b>			<b>0.44</b>
<b>C.V.</b>			<b>0.95</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 7. b.**

**Investment on Share and Debentures to Total Assets Ratio of NABIL**

(Rs in millions)

<b>Year</b>	<b>Investment on Share and Debentures</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	71.6	<b>29660</b>	0.24
2064/65	81.8	<b>38479</b>	0.21
2065/66	161.7	<b>45942</b>	0.35
2066/67	92.7	<b>54610</b>	0.17
2067/68	3663.3	<b>58099</b>	6.31
<b>Mean</b>			<b>1.46</b>
<b>S.D.</b>			<b>2.42</b>
<b>C.V.</b>			<b>1.66</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 7.c.**

**Investment on Share and Debentures to Total Assets Ratio of EBL**

(Rs in millions)

<b>Year</b>	<b>Investment on Share and Debentures</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	6.5	23335	0.03
2064/65	16.2	28566	0.06
2065/66	102	38000	0.27
2066/67	363.8	42053	0.87
2067/68	313	46840	0.67
<b>Mean</b>			<b>0.38</b>
<b>S.D.</b>			<b>0.34</b>
<b>C.V.</b>			<b>0.88</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 7. d.**

**Investment on Share and Debentures to Total Assets Ratio of NSBI**

(Rs in millions)

<b>Year</b>	<b>Investment on Share and Debentures</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	31.9	15397	0.21
2064/65	53.3	18594	0.29
2065/66	32.9	31990	0.10
2066/67	37	39381	0.09
2067/68	13296.5	46088	28.85
<b>Mean</b>			<b>5.91</b>
<b>S.D.</b>			<b>11.47</b>
<b>C.V.</b>			<b>1.94</b>

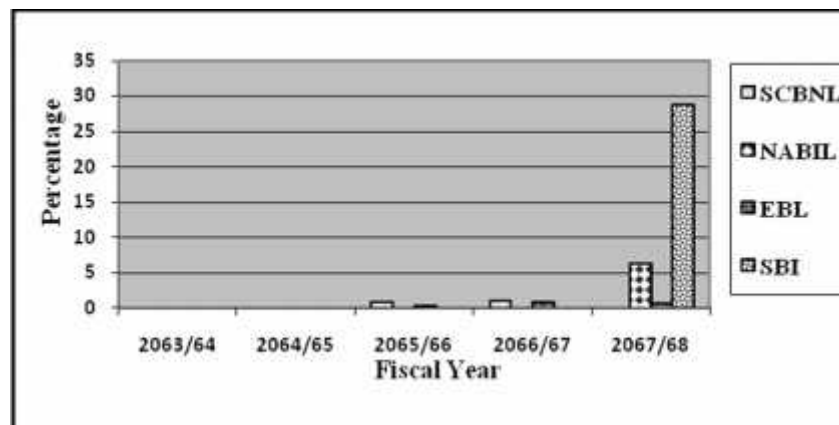
(Source: Banking and Financial Statistics, NRB)

Above table 7a. to 7d. Shows that the ratio of investment on share debenture to total assets. The average ratio of NSBL is higher than other banks likewise NABIL, SCBNL and EBL. On the basis of mean ratios, it can be stated that NSBI has invested

higher amount in shares and debentures in comparison to other banks. But it shows that all banks invest fewer funds in share and debentures of other companies. Similarly C.V. of NSBI is higher than that of other banks likewise, NABIL, SCBNL and EBL. It means that ratio of NSBI is more variable than other banks.

From the above it can be concluded that all the banks doesn't invest much on share and debenture of other company. It may be because of higher risk involved with it. But commercial bank should invest in other company's shares also to develop the industry and to develop the country.

**Figure No. 6:**  
**Investment on Shares and Debentures to Total Assets Ratio**  
 (Rs in million)



#### 4.1.4 Growth Ratio

Growth Ratios represent how well the Commercial banks are maintaining their economic and financial position. Here those growth ratios are analyzed and interpreted which are directly related to the fund mobilization and Investment management of a commercial bank. The high ratio generally indicated better performance of a bank and vice-versa.

##### 4.1.4.1 Growth Ratio of Total Investment

This ratio shows whether the sample bank had increased the Total Investment or decreased the Investment. The following table shows the growth ratio of SCBNL, NABIL, EBL and NSBI banks.

**Table No. 8**  
**Growth Ratio of Investment**

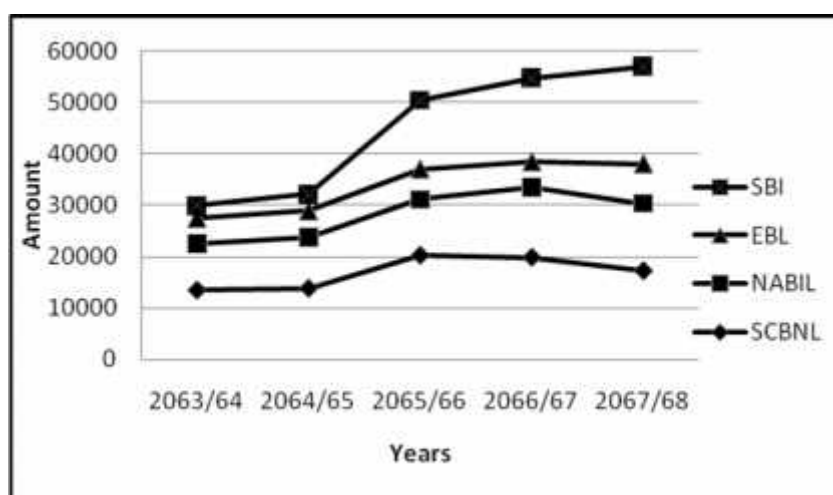
(Rs in millions)

Year	SCBNL	NABIL	EBL	NSBI
2063/64	13564	8952	4985	2378
2064/65	13903	9967	5061	3147
2065/66	20236	10875	5950	13286
2066/67	19848	13612	5010	16255
2067/68	17259	13081	7744	18911
<b>Growth Ratio %</b>	<b>6.20</b>	<b>9.94</b>	<b>11.64</b>	<b>67.93</b>

(Source: Banking and Financial Statistics, NRB)

**Figure No. 7**  
**Growth Ratio of Investment**

(Rs. in millions)



The above table and graph shows that the growth rate of investment of sampled banks. All banks increasing their investment in different sectors. NSBI has higher growth rate of investment than other banks Likewise SCBNL, NABIL, and EBL. NSBI has higher investment than other banks likewise NABIL, EBL, and SCBNL. The calculation method of growth ratios is shown in Annex-1.

#### 4.1.4.2 Growth Ratios of Deposits

The bank collects its deposit from public. The growth ratio of deposits represent whether the banks had been able to increase its deposit collection or not. The following table represents the growth ratios of deposits of SCBNL, NABIL, EBL and NSBI.

**Table No. 9**  
**Growth Ratio of Deposit**

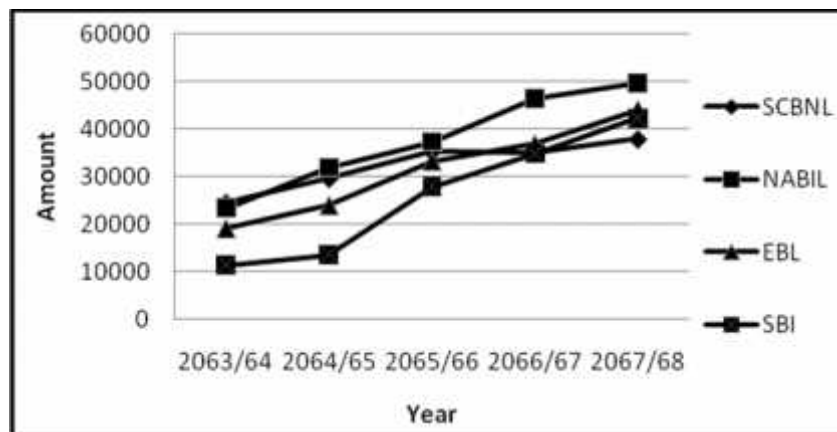
(Rs in millions)

Year	SCBNL	NABIL	EBL	NSBI
2063/64	24640	23342	19098	11445
2064/65	29744	31915	23976	13715
2065/66	35350	37348	33323	27957
2066/67	35183	46335	36932	34896
2067/68	37999	49691	44128	42415
<b>Growth Ratio %</b>	<b>11.44</b>	<b>20.79</b>	<b>23.29</b>	<b>38.75</b>

(Source: Banking and Financial Statistics, NRB)

**Figure No. 8**  
**Growth Ratios of Deposits**

(Rs. in millions)



The above table and graph shows that the deposit collection of banks. All the banks are increasing their deposits. NSBI has higher growth ratio of deposit than other bank Likewise NABIL, EBL, NSBI and SCBNL has collected higher deposits respectively. The calculation method of growth ratios is shown in Annex-2.

#### 4.1.4.3 Growth Ratio of Loan and Advances

Loan and Advances growth ratio shows whether the banks are increasing its loan and advances or decreasing. The following table shows the position of loan and advances of SCBNL, NABIL, EBL and NSBI banks.

**Table No. 10**  
**Growth Ratio of Loan and Advance**

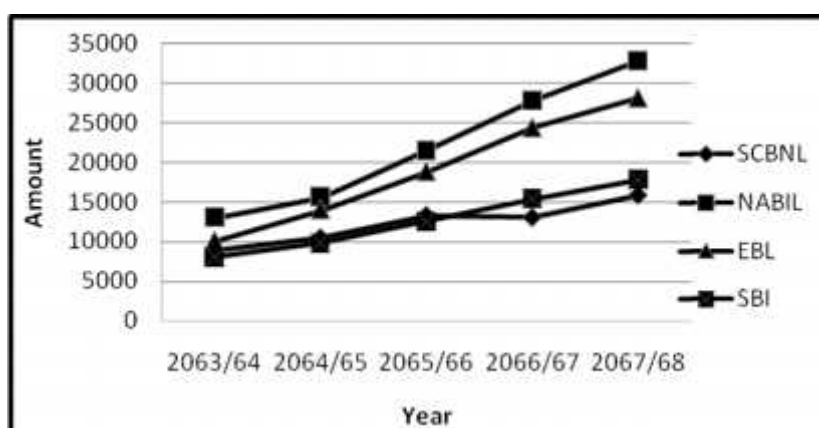
(Rs in millions)

Year	SCBNL	NABIL	EBL	NSBI
2063/64	8905	13021	10124	8060
2064/65	10538	15657	14059	9847
2065/66	13355	21515	18814	12575
2066/67	13119	27817	24366	15465
2067/68	15932	32903	28130	17887
<b>Growth Ratio %</b>	<b>15.65</b>	<b>26.08</b>	<b>29.11</b>	<b>22.05</b>

(Source: Banking and Financial Statistics, NRB)

**Figure No. 9**  
**Growth Ratios of Loan and Advances**

(Rs. in millions)



The above table and graph shows growth ratio of loan and advances. All the banks are increasing its loan and advances. EBL has higher growth ratio than other banks likewise SCBNL, NABIL and NSBI. NABIL has higher loan and advances than other banks likewise SCBNL, EBL and NSBI. The calculation method of growth ratios is shown in Annex-3.

#### 4.1.5 Capital Adequacy Ratio

CAR measure the relationship with the total capital fund & total risk weighted assets and also measures the bank's capital. This ratio measure whether the firm has maintained sufficient capital or not. The ratio is tested to ensure the safety and stability of the firm in the long run.

**Table No. 11.a.**  
**Capital Adequacy Ratio of SCBNL**

(Rs in millions)

<b>Year</b>	<b>Capital Fund</b>	<b>Risk Weighted Asset</b>	<b>Ratio (%)</b>
2063/64	1755.3	11144	15.75
2064/65	2117.2	15671	13.51
2065/66	2493.4	16961	14.70
2066/67	3053	20701	14.51
2067/68	3263	23401	14.22
<b>Mean</b>			<b>14.53</b>
<b>S.D.</b>			<b>1.67</b>
<b>C.V.</b>			<b>0.10</b>

(Source: Banking and Financial Statistics, P.no-21, NRB)

**Table No. 11.b.**  
**Capital Adequacy Ratio of NABIL**

(Rs in millions)

<b>Year</b>	<b>Capital Fund</b>	<b>Risk Weighted Asset</b>	<b>Ratio (%)</b>
2063/64	1874.8	19166	12.04
2064/65	2057.0	26933	11.10
2065/66	2436.2	34716	10.70
2066/67	4390	39016	10.50
2067/68	5173	44469	10.58
<b>Mean</b>			<b>10.98</b>
<b>S.D.</b>			<b>1.31</b>
<b>C.V.</b>			<b>0.10</b>

(Source: Banking and Financial Statistics, p no19 NRB)

**Table No. 11.c.**  
**Capital Adequacy Ratio of EBL**

(Rs in millions)

<b>Year</b>	<b>Capital Fund</b>	<b>Risk Weighted Asset</b>	<b>Ratio (%)</b>
2063/64	963.6	14979	11.2
2064/65	1601.5	21051	11.44
2065/66	2066.5	26050	11.34
2066/67	3257	30241	15.53
2067/68	3605	34583	9.55
<b>Mean</b>			<b>11.81</b>
<b>S.D.</b>			<b>0.73</b>
<b>C.V.</b>			<b>0.06</b>

(Source: Banking and Financial Statistics, p no-25 NRB)

**Table No. 11.d.**  
**Capital Adequacy Ratio of NSBI**

(Rs in millions)

<b>Year</b>	<b>Capital Fund</b>	<b>Risk Weighted Asset</b>	<b>Ratio (%)</b>
2063/64	989.9	8981	13.29
2064/65	1163.3	10871	12.32
2065/66	1414.6	13764	11.92
2066/67	2141.9	16818	12.25
2067/68	2834	22099	11.52
<b>Mean</b>			<b>12.26</b>
<b>S.D.</b>			<b>1.05</b>
<b>C.V.</b>			<b>0.08</b>

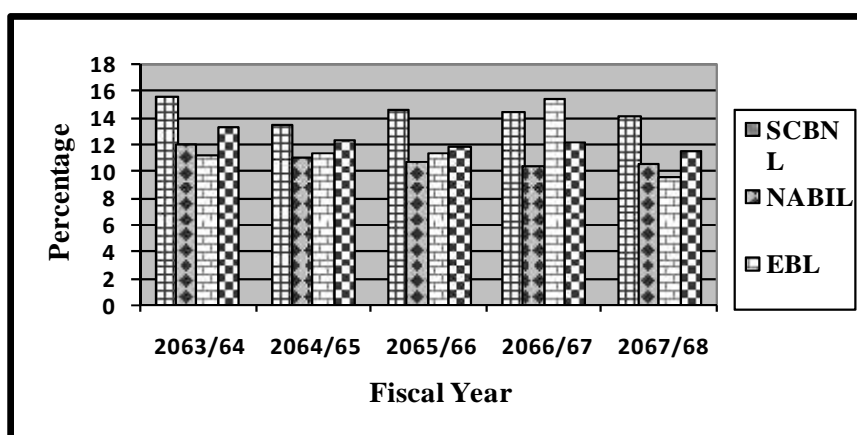
(Source: Banking and Financial Statistics, p no-23 NRB)

Above table 11a. to 11d.shows that the ratio of Capital Adequacy. The average ratio of SCBNL is higher than other banks likewise, EBL, NSBI and NABIL. On the basis of mean ratios, it can be stated that SCBNL has maintained higher ratio in comparison to other banks. But it shows that all banks maintained NRB's required CAR i.e. greater than 11 percentages. Similarly C.V. of SCBNL and NABIL are also

higher than that of other banks likewise EBL & NSBI. It means that ratio of SCBNL and NABIL are more variable than other banks. SCBNL and NABIL are increasing those capital funds than other banks.

From the above it can be concluded that all the banks maintained sufficient capital according to NRB' directives i.e. all banks maintain CAR greater than 11 percentages except NABIL.. Thus above data shows that it serves to protect depositors and maintain stability & efficiency of the financial system.

**Figure No. 10**  
**Capital Adequacy Ratios**  
(Rs in millions)



According to Nepal Rastra Bank rules and regulation bank should maintain 11% CAR. From above figure & table, it is seen that all four banks under study have maintained CAR in all five year as per the NRB standard. SCBNL has highest CAR in whereas EBL has lower CAR which is slightly above the NRB rule. From the above data can say that depositors and creditors of all the four banks are in safer position. Maintaining higher CAR is good, but in shareholder's point of view, it is not better because of idle fund and is not being transferred to credit which ultimately affect the profit.

#### **4.1.6 Loan Loss Provision**

To ensure the public for the safe of public deposit or credit, loan loss provision is kept. Loan loss provision ratio determines the provision made in terms of total loan provided in a particular year. Also, it can be advocated from two opposite dimensions. From one dimension it is advocated that lower loan loss provision ratio is better

because higher loan loss provision decreases profit for shareholder. While from another dimension it can be advocated that higher is better because there can be the chance of higher risk than it is estimated loan loss provision ratio has relationship with total loan loss provision and Total Loan and Advances.

**Table No. 12.a.**  
**Loan Loss Provision Ratio of SCBNL**

(Rs. in millions)

<b>Year</b>	<b>Loan Loss Provision</b>	<b>Total Loan</b>	<b>Ratio (%)</b>
2063/64	288	10538	2.73
2064/65	245	13355	1.84
2065/66	201	13119	1.53
2066/67	218	15932	1.37
2067/68	235	18662	1.26
<b>Mean</b>			<b>2.10</b>
<b>S.D.</b>			<b>0.66</b>
<b>C.V.</b>			<b>0.31</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 12.b.**  
**Loan Loss Provision Ratio of NABIL**

(Rs. in millions)

<b>Year</b>	<b>Loan Loss Provision</b>	<b>Total Loan</b>	<b>Ratio (%)</b>
2063/64	353	13021	2.71
2064/65	356	15657	2.28
2065/66	405	21515	1.88
2066/67	409	27817	1.47
2067/68	752	32903	2.29
<b>Mean</b>			<b>2.12</b>
<b>S.D.</b>			<b>0.42</b>
<b>C.V.</b>			<b>0.20</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 12.c.**  
**Loan Loss Provision Ratio of EBL**

(Rs. In millions)

<b>Year</b>	<b>Loan Loss Provision</b>	<b>Total Loan</b>	<b>Ratio (%)</b>
2063/64	356	10124	3.52
2064/65	419	14059	2.98
2065/66	497	18814	2.64
2066/67	585	24366	2.40
2067/68	600	28130	2.13
<b>Mean</b>			<b>2.73</b>
<b>S.D.</b>			<b>0.48</b>
<b>C.V.</b>			<b>0.18</b>

(Source: Banking and Financial Statistics, NRB)

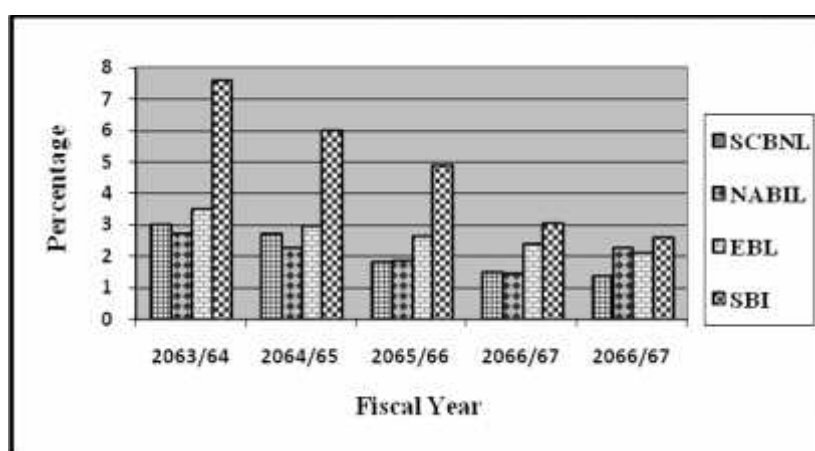
**Table No. 12.d.**  
**Loan Loss Provision Ratio of NSBI**

(Rs. In millions)

<b>Year</b>	<b>Loan Loss Provision</b>	<b>Total Loan</b>	<b>Ratio (%)</b>
2063/64	614	8060	7.61
2064/65	589	9847	5.98
2065/66	616	12575	4.90
2066/67	475	15465	3.07
2067/68	464	17887	2.59
<b>Mean</b>			<b>4.83</b>
<b>S.D.</b>			<b>1.85</b>
<b>C.V.</b>			<b>0.38</b>

(Source: Banking and Financial Statistics, NRB)

**Figure No. 11**  
**Loan Loss Provision Ratios**  
(Rs. In millions)



According to above figure and table it is seen that all four banks are decreasing its LLP Ratio. Among the banks NSBI has the highest LLP Ratio (4.83) than SCBNL, NABIL & EBL. It is so because of high NPL Ratio. There is direct relationship between NPL Ratio and LLP Ratio. Here SCBNL has maintained the lowest LLP Ratio so they have better credit management.

#### 4.1.7 Credit Risk Ratio

Credit risk ratio measures the possibility that loan will not be repaid to that investment will deteriorate in quality or go into default with consequent loss to that bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances.

**Table No. 13.a.**  
**Credit Risk Ratio of SCBNL**  
(Rs. In millions)

Year	Total Loan & Advances	Total Assets	Ratio (%)
2063/64	8905	28597	33.23
2064/65	10538	33336	35.20
2065/66	13355	40066	38.92
2066/67	13119	40213	31.48
2067/68	15932	43811	38.37
<b>Mean</b>		<b>28597</b>	<b>35.44</b>
<b>S.D.</b>			<b>2.88</b>
<b>C.V.</b>			<b>0.08</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 13.b.**  
**Credit Risk Ratio of NABIL**

(Rs. In millions)

<b>Year</b>	<b>Total Loan &amp; Advances</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	13021	29660	53.95
2064/65	15657	38479	52.79
2065/66	21515	45942	55.91
2066/67	27817	54610	60.55
2067/68	32903	58099	60.25
<b>Mean</b>			<b>56.69</b>
<b>S.D.</b>			<b>3.19</b>
<b>C.V.</b>			<b>0.06</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 13.c.**  
**Credit Risk Ratio of EBL**

(Rs. In millions)

<b>Year</b>	<b>Total Loan &amp; Advances</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2063/64	10124	16715	60.57
2064/65	14059	23335	60.25
2065/66	18814	28566	65.86
2066/67	24366	38000	64.12
2067/68	28130	42053	66.89
<b>Mean</b>			<b>63.54</b>
<b>S.D.</b>			<b>2.71</b>
<b>C.V.</b>			<b>0.04</b>

(Source: Banking and Financial Statistics, NRB)

**Table No. 13.d.**  
**Credit Risk Ratio of NSBI**

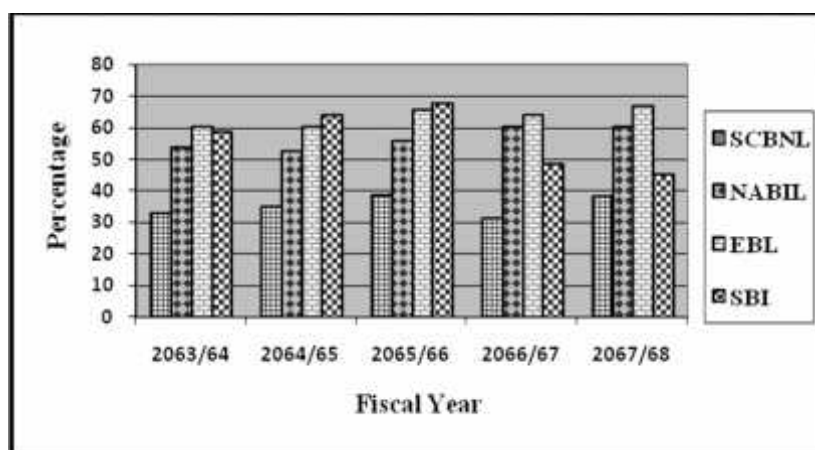
(Rs. In millions)

Year	Total Loan & Advances	Total Assets	Ratio (%)
2063/64	8060	13736	58.68
2064/65	9847	15397	63.95
2065/66	12575	18594	67.63
2066/67	15465	31990	48.34
2067/68	17887	39381	45.42
<b>Mean</b>			<b>56.80</b>
<b>S.D.</b>			<b>8.64</b>
<b>C.V.</b>			<b>0.15</b>

(Source: Banking and Financial Statistics, NRB)

**Figure No. 12**  
**Credit Risk Ratios**

(Rs. In millions)



According to above table & figure shows that CRR of all four banks are fluctuating. EBL has highest ratio (63.54) than other SCBNL, NABIL, & NSBI. Comparatively, SCBNL has lowest risk ratio (35.44) than other banks. It indicates that SCBNL has low possibility of loss than that other bank.

## **4.2 Statistical Analysis**

In order to achieve the effective of this study, some essential statistical tools such as Coefficient of correlation analysis between variables, trend analysis of investment plus loan & advance and deposit are used.

### **4.2.1 Coefficient of Correlation**

#### **4.2.1.1 Co-efficient of Correlation Analysis between Investment plus loan & advances and Deposits**

Under this topic, Karl Person's coefficient of correlation has been used to find out the relationship between Deposit and Investment plus loan & advances. The main objective of the correlation analysis between deposit and investment plus loan & advance is to find out whether deposit is significantly used as investment plus loan & advance or not. It is already mentioned that Investment is dependent upon saving i.e. deposit. Longer the duration of deposit, higher the banker's ability to acquire long term asset. In the other words banker can't invest more on long asset if duration of deposit is short. In this sense it can be said that Investment is the function of deposit. Theoretically it is assumed that long-term asset yield higher return. It means longer the duration of deposit, higher would be the profitability of the bank. But Investment may not be the function of deposit only. Sometimes Investment is made from the funds raised from the sources. In such situation Investment is not dependent upon deposit only co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis deposits is independent variable (x) and Investment plus Loan and Advances is dependent variable (y).

The detail calculations in this regard are done in Annex-4 and the following table shows the value of  $r$ ,  $r^2$  and P.E.  $r$  and 6 P.E between those variables of SCBNL, NABIL, EBL and NSBI during the study period 2063/64 to 2067/68.

**Table No. 14**

**Correlation between Deposits and Investment plus Loan & Advances**

<b>S.N.</b>	<b>Banks</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>P.E.</b>	<b>6 P.E.</b>
1.	SCBNL	0.9513	0.9050	0.0286	0.1719
2.	NABIL	0.9972	0.9944	0.0017	0.0102
3.	EBL	0.9978	0.9953	0.0014	0.0084
4.	NSBI	0.9979	0.9958	0.0013	0.0078

(Source: Annex-4)

From the above table shows, coefficient of correlation between Investment plus loan & advances and deposit of SCBNL is 0.9513 which shows that there is a positive correlation between deposit and Investment plus loan & advances and the value of coefficient of determination ( $r^2$ ) is 0.9050. Which means 90.50 % Investment plus loan & advances is depending on deposit i.e. independent variable and 9.50 % Investment decision depends on other variables. And it's Probable Error (P.E.) is 0.0286 and similarly 6P.E. is 0.1719 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and Investment plus loan & advance of SCBNL is also significant though there is positive relation between them. This indicates that SCBNL is successful to mobilize its deposit appropriately

Again in the case of NABIL, coefficient of correlation between Investment plus loan & advances and deposit of NABIL is 0.9972 which shows that there is a positive correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination ( $r^2$ ) is 0.9944. Which means 99.44 % Investment plus loan & advances is depend on deposit i.e. independent variable and 0.56 % Investment decision depends on other variables. And it's Probable Error (P.E.) is 0.0017 and similarly 6P.E. is 0.0102 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and Investment plus loan & advance of NABIL is also significant though there is positive relation between them. This indicates that NABIL is successful to mobilize its deposit appropriately

Again in the case of EBL, coefficient of correlation between Investment plus loan & advances and deposit of EBL is 0.9978 which shows that there is a positive correlation between deposit and Investment plus loan & advances and the value of coefficient of determination ( $r^2$ ) is 0.9953. Which means 99.53 % Investment plus loan

& advances is depend on deposit i.e. independent variable and 0.47 % Investment decision depends on other variables. And it's Probable Error (P.E.) is 0.0014 and similarly 6P.E. is 0.0084 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and Investment plus loan & advance of EBL is also significant though there is positive relation between them. This indicates that EBL is successful to mobilize its deposit appropriately

Likewise in the case of NSBI, coefficient of correlation between Investment plus loan & advances and deposit of NSBI is 0.9979 which shows that there is a positive correlation between deposit and Investment plus loan & advances and the value of co-efficient of determination ( $r^2$ ) is 0.9958 Which means 99.58 % Investment plus loan & advances is depend on deposit i.e. independent variable and 0.42 % Investment decision depends on other variables. And it's Probable Error (P.E.) is 0.0013 and similarly 6P.E. is 0.0078 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and Investment plus loan & advance of NSBI is also significant though there is positive relation between them. This indicates that NSBI is successful to mobilize its deposit appropriately.

In conclusion, we can say that there is positive relationship between deposit and investment plus loan & advances of four banks. This means if deposit increases then investment plus loan & advances of the bank also increases. It is clear from the table that correlation of coefficient and coefficient of determinant of NSBI is higher than that of NABIL, EBL & SCBNL bank respectively. This shows that NSBI is at the better position in mobilizing deposit and investment plus loan & advances in comparison to other banks. Calculation of co-relation between investment plus loan & advances and deposit is shown in Annex-4

#### **4.2.2 Trend Analysis and Projection for Next 5 Years**

The objective of this topic is to analysis trend of Investment, Deposit of SCBNL, NABIL, EBL and NSBI. To utilize investment and Deposit of a commercial bank may grant loan and advances and invest in government securities and shares and debentures of other companies. Under this topic an attempt is made to analyze trend of Investment and Deposit of SCBNL, NABIL, EBL and NSBI and also forecast their trend for next five years. The projections are based on the following assumptions:

- a. The main assumption is that other things will remain unchanged.
- b. The bank will run in present position.
- c. The economy will remain in the present stage.
- d. Nepal Rastra Bank will not change its guidelines to commercial banks.

#### 4.2.2.1 Trend Analysis of Total Investment

Under this topic an attempt is made to analyze the trend of Investment of SCBNL, NABIL, EBL and NSBI and forecast the trend for next 5 years. Here, Investment includes Investment on government securities and investment in share and debenture of other companies plus loan and advances. Since loan and advances are also the investment of the bank, it is also included with total Investment. The following table shows the trend values of 10 years from 2063/64 B.S. to 2072/73 B.S. of SCBNL, NABIL, EBL and NSBI.

**Table No. 15**  
**Trend values of Investment**

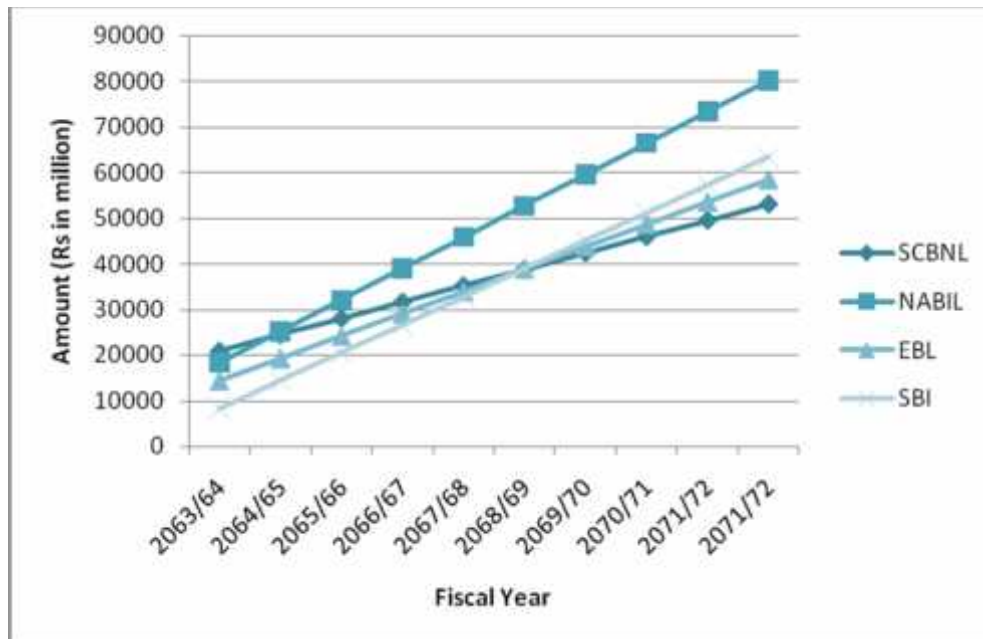
(Rs in million)

Year	SCBNL	NABIL	EBL	NSBI
2063/64	20989.82	18354.80	14359.86	8261.34
2064/65	24560.38	25226.80	19250.02	14390.56
2065/66	28130.94	32098.80	24140.18	20519.78
2066/67	31701.5	38970.80	29030.34	26649.00
2067/68	35272.06	45842.80	43700.82	32778.22
2068/69	38842.6	52714.80	38810.66	38907.44
2069/70	42413.2	59586.80	43700.82	45036.66
2070/71	45983.7	66458.80	48590.08	51165.88
2071/72	49554.3	73330.80	53481.14	57295.1
2072/73	53124.9	80202.80	58371.30	63424.32

(Source: Annex-5a to 5d.)

**Figure No. 13:**  
**Trend value of investment**

(Rs. in millions)



From the above table no. 15 and figure no. 13, it is found that investment trend of commercial banks is in increasing trend. Other things remaining the same, in FY 2072/73, the investment of SCBNL, NABIL, EBL and NSBI will be Rs. 53124.90 million, Rs. 80202.80 million, Rs. 58371.30 million and Rs. 63424.32 million respectively in the same year. From the above investment trend, it is clear shows that NABIL deposit utilization position in relation to investment is greater than that the other remaining banks and also it has greater increasing growth rate than other banks. Therefore, it shows that total investment of NABIL can be in better position in the future.

In conclusion, we can say that all the commercial banks have followed the policy of maximizing the investment. Calculation of trend of investment is shown in Annex-5a to 5d.

#### **4.2.2.2 Trend Analysis of Total Deposit**

Under this topic an attempt is made to analyze the trend of Deposit of SCBNL, NABIL, EBL and NSBI and forecast the trend for next 5 years. The following table shows the trend values of 10 years from 2063/43 B.S. to 2072/73 B.S. of SCBNL, NABIL, EBL and NSBI.

**Table No.16**  
**Trend values of Total Deposit**

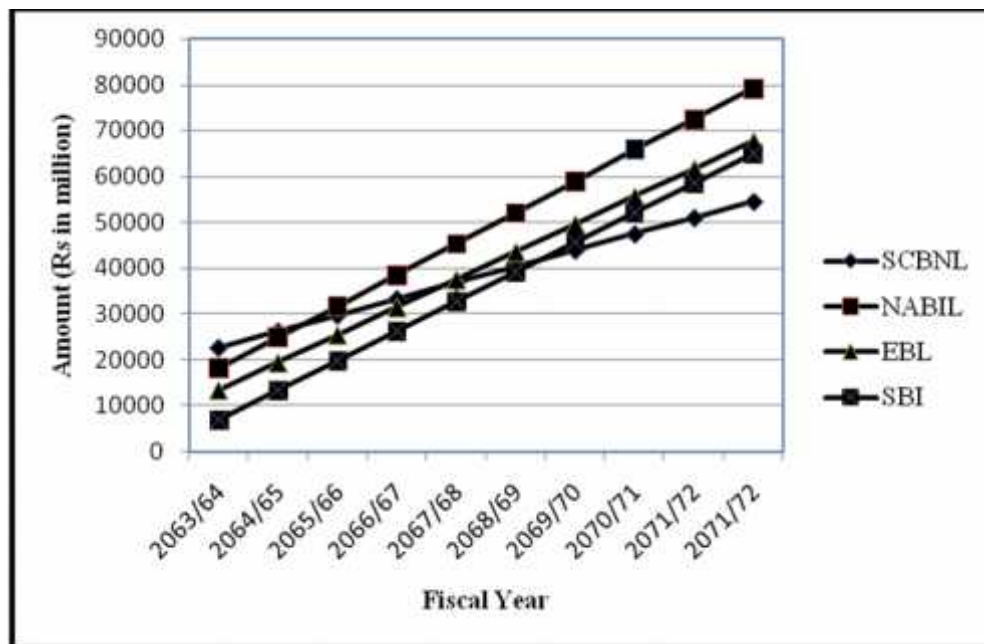
(Rs in million)

Year	SCBNL	NABIL	EBL	NSBI
2063/64	22598.6	18062	13329.44	6853.58
2064/65	26148.25	24859.91	19377.86	13313.44
2065/66	29697.9	31657.82	25426.28	19773.3
2066/67	33247.55	38455.73	31474.7	26233.16
2067/68	36797.2	45253.64	37523.12	32693.02
2068/69	40346.9	52051.55	43571.5	39152.9
2069/70	43896.5	58849.46	49620	45612.7
2070/71	47446.2	65647.37	55668.4	52072.6
2071/72	50995.8	72445.28	61716.8	58532.5
2072/73	54545.5	79243.19	67765.2	64992.3

(Source: Annex-6a to 6d)

**Figure No. 14**  
**Trend value of deposit**

(Rs. in millions)



From the above table no. 16 and figure no. 14, it is found that deposit trend of commercial banks is in increasing trend. Other things remaining the same, in FY

2072/3, the deposit of SCBNL, NABIL, EBL and NSBI will be Rs. 54545.50 million, Rs. 79243.19 million, Rs. 67765.2 million and Rs. 64992.3 million respectively in the same year. From the above deposit trend, it is clearly shows that NABIL deposit collection position from the market is greater than that the other remaining banks and also it has greater increasing growth rate than other banks. Therefore, it is forecasted that NABIL will be more successful to collect more deposit from the market.

### **4.3 Major Finding of the Study**

From the analysis of financial data and statistical data the main findings are as follows:

#### **4.3.1 Findings from ratio of Sample banks to Total Commercial banks:**

Mean ratio of SCBNL Investment to total commercial banks investment is 13.81% which is extremely higher than that of other banks to total commercial banks. Similarly the standard deviation and coefficient of variation between the ratio of NSBI Investment to total commercial bank Investment is comparatively higher that of other banks. It means there is more variability in Investment in NSBI than others. It is due to higher rate of fluctuations of Investment pattern in NSBI Bank.

#### **4.3.2 Findings from the Investment pattern of Sample Banks**

Investment made by SCBNL NABIL. EBL, NSBI in different sectors found to invest its fund in Government securities, shares and debenture of other industries, and others. From the FY 2063/64 to 2067/68 Investment in Government Securities, investment in share and debentures of other companies and investment in other sector also in fluctuating trends. All the banks had invested fewer funds to share and capital of other company. The commercial banks mostly invest on government a security, but latter NSB and NABIL has used in share and debentures of other company.

#### **4.3.3 Findings from Assets Management Ratios**

The mean ratio of Investment of Total deposit of SCBNL is 52.17% which is higher than other banks likewise NABIL, EBL and NSBI. The ratio of EBL is 19.22% which is less than other banks. Loan and advances is also another type of Investment of Commercial bank. The mean ratio of Investment plus loan and advances to deposit ratio of NSBI is 103.35% which is higher than other banks, EBL has less than other

banks. It shows that the bank uses most of its fund from deposit on Investment and loan and advances. The mean ratio of total investment to total assets ratio of SCBNL is 45.68% which is greater than other banks. Similarly EBL has fewer ratios than other banks. The mean ratio of investment on government securities to total assets ratio of SCBNL is 26.06% which is higher than other banks and NSBI has 12.75% which is less ratio than other banks. The mean ratio of investment on share and debenture to total asset ratio of NSBIL is 5.91% which is higher than other banks. NSBI has use its more fund on share and debenture of other companies than other banks. EBL has 0.38% which is less ratio of investment on share and debenture of other companies than other banks. It means EBL less invest its fund on share and debenture.

#### **4.3.4 Findings from Growth Ratios**

Growth ratio of Investment of NSBI is 67.93% which is higher than other banks, likewise EBL, NABIL and. SCBNL All the banks increasing their investment. SCBNL has 6.20% which is less growth ratio than other banks. Growth ratio of loan and advance of EBL has 29.11% which is higher than that of other banks and SCBNL has 15.65% which is lower growth ratio of loan and advance. All the banks are increasing their loan and advance. Growth ratio of deposits of NSBI is 38.75% which is higher than that other banks and SCBNL has 11.44% which is lower growth ratio of deposit. All the banks are increasing their deposit.

#### **4.3.5 Findings from Capital Adequacy Ratios**

The average capital adequacy ratio of SCBNL is 14.53% which is higher than other banks likewise NABIL, EBL and NSBI. On the basis of mean ratios, it can be stated that SCBNL has maintained higher ratio in comparison to other banks. But it shows that all banks maintained NRB's required CAR i.e. greater than 11 percentages, except NABIL. Similarly C.V. of SCBNL is also higher than that of other banks likewise NABIL, EBL & NSBI. It means that ratio of SCBNL is more variable than other banks. SCBNL is increasing its capital fund than other banks.

#### **4.3.6 Findings from Loan Loss Provision Ratios**

The Loan Loss Provision of all four banks is decreasing except FY 2067/68 of NABIL. Among the banks NSBI has the highest LLP Ratio (4.83%) than SCBNL,

NABIL and EBL. It is so because of high NPL Ratio. There is direct relationship between NPL Ratio and LLP Ratio. Here SCBNL has maintained the lowest LLP Ratio i.e. 2.10% so they have better credit management.

#### **4.3.7 Findings from Credit Risk Ratios**

Credit Risk Ratio of all four banks is in fluctuating trends. EBL has highest ratio (63.54%) than other SCBNL, NABIL & NSBI. Comparatively, SCBNL has lowest risk ratio (35.44%) than other banks. It indicates that SCBNL has low possibility of loss than that other bank.

#### **4.3.8 Findings from Correlation Coefficient Analysis**

Total Investment and Total deposit of all four banks has positive relation. And correlation of co-efficient between deposit and investment of all four banks are significant and the value of co-efficient of determination ( $r^2$ ) of NSBI is 0.9958 which is higher than other banks it means 99.58% of Investment decision is dependent upon deposit and only 0.42% Investment is depend upon other variables. Similarly Probable Error (P.E.) is 0.0013 and 6P.E. is 0.0078 which shows that ( $r$ ) is highly greater than 6P.E. Therefore it reveals that relationship between deposit and Investment is significant. In the case of SCBNL, coefficient of correlation between Investment and deposit is 0.9513 which is less than other banks it shows that there is a positive correlation between deposit and Investment and the value of co-efficient of determination ( $r^2$ ) is 0.9050. Which mean only 90.50% Investment is depend on deposit and 9.50% Investment decision depends on other variables. And its Probable Error (P.E.) is 0.0286 and similarly 6P.E.is 0.1719 which shows that ( $r$ ) is higher than (6P.E). It means correlation of coefficient between deposit and Investment of SCBNL is significant though there is positive relation between them.

#### **4.3.9 Findings from Trend Analysis**

Total Investment of four banks is also in increasing trend. The estimated Investment of NABIL is 80202.80 million which is higher than that of other banks and SCBNL will be Rs. 53124.9 million in the FY 2072/73 B.S. which is less than that of other banks. NABIL uses relatively a large portion of its deposit as investment and it has greater increasing trend than other banks so, the NABIL will be in a better position in future.

The total deposit of all four banks is also in an increasing trend. The estimated deposit of NABIL is 79243.19 million which is higher than that of other banks and SCBNL will be Rs. 54545.50 million in the FY 2072/73 B.S which is less than that of other banks. NABIL's deposit collection position from the market is greater than other banks and also it has greater increasing growth rate than other banks. Therefore, it is forecasted that NABIL will be more successful to collect more deposit from the market.

## **CHAPTER – V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

The final chapter of this study is summary, conclusion and recommendation developed from the analysis of various aspects of the investment of commercial banks by using some financial as well as statistical tools. After completing the basic analysis required for the study the final and the most important task of the researcher is to be summarized the study and recommendation for the future importance. In this chapter, the researcher examines the processed data to come into new concluding upon the investment policy of these sampled banks individually and with comparatively. It also aims to give forth some suggestions that must be helpful for further enhancement of the lending operation and practices of the sampled banks.

#### **5.1 Summary**

The economic development of country depends upon the development of commerce and industry and there is no doubt that banking promotes the development of commerce because bank in itself is the part of commerce. The process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role for rapid economic development.

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

Industrial development is very important for economic development of any country. And there must be Investment made on productive activities for Industrial development. Investment is one of the financial activities which involve the decision of capital to establish commercial or industrial venture. It involves uses of funds to long term assets that would yield benefits in the future. The beginning and establishment of financial institution depends upon the level of economic activities and monetary transaction in the country. In Nepal history of modern financial institution begins with the establishment of NBL in 1994 B.S. Since then several

financial institutions have come into existence. But Nepalese Industries have been facing challenges especially due to inadequacy of financial resources. Although numerous financial institutions have emerged both in regional as well as in international financial centers to extend credit facilities to the financially viable enterprise. But there is still a big gap between demand for and supply of financial resources and gap seems ever widening over the years. Globalization and freeing up of the economy, decentralization, restructuring and downswing of large firms, worldwide communication networks and transfer and acquisition of state of the art, technology and other application, all have brought the challenges and opportunities to entrepreneur. Those who can respond to these challenges and mobilize necessary financial resources become successful and those who do not, fall victim in their rapidly changing economic environment.

Banks plays a crucial role in this matter. Commercial banks not only collect the scattered saving from individual by accepting deposits but also provides various types of loan. And it itself invest in various share and debentures of other companies. A healthy development of any bank depends heavily upon its Investment policy. A sound and variable Investment policy can be effective one for the economy to attain the economic objectives directed towards the acceleration of the pace of development. A good Investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and Investment. Establishment of commercial banks has continued in response to economic liberalization policies of the government. So, now in Nepal there are many commercial banks competition with each other in their business. These banks are mainly concentrated themselves on financing foreign trade commerce and industry.

The main objective of the study is to evaluate the Investment Analysis of Commercial Banks in Nepal. And to suggest measures to improve the investment policy of the banks. The study is based on secondary data from fiscal year 2063/64 to 2067/68. The data which were employed in this research are secondary in nature. They are obtained from annual report and financial statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master degree thesis. Beside this personal contact with the banks personnel have also been made.

Financial as well as statistical tools have been developed in order to analyze and interpret the data information, under financial analysis, various financial ratios related to investment function of commercial banks i.e. liquidity ratio, assets management ratio, capital adequacy ratio, loan loss Provision, credit risk ratio and growth ration have been analyzed and interpreted. Under statistical tools like percentage, mean, standard deviation, coefficient of variation, coefficient of correlation, probable error and trend analysis have been used for the analysis and interpretation of the data. This analysis gives clean picture of the performance of the banks with regard to investment operation.

## **5.2 Conclusion**

After study and analysis of given data we conclude that banking is life blood of the financial sector which circulates money and generates more sources to invest. All the banks are running in profit. They invest different sector. NSBI is running successfully and the growth rate of deposit, investment is higher than that of other banks. It means NSBI will collect more deposit and invested in different sector in future. From the analysis of data NABIL is running successfully. It has collected more deposit and loan and advance than that of other banks. SCBNL is also running successfully, its growth rate of deposit, investment and loan and advance is increasing. Growth rate of investment of NSBI is higher than that of other banks.

Through the assets management ratio, Standard Chartered Bank Nepal limited has better capacity to mobilize its deposits on investment and has consistent then other Banks. NSBI Bank limited has stronger investment policy towards loan and advance to total deposit. Similarly SCBNL has mobilized their assets as investment in government securities more than other banks. From the view point of loan loss provision NSBI has higher LLP ratio but SCBNL has maintained the lower LLP ratio so they have better credit management.

The ratio of total investment plus loan and advances to deposit of EBL has strong investment policy than other banks likewise SCBNL, NABIL and NSBI have got fewer ratios. A higher ratio of Investment plus Loan & Advances indicates the better mobilization of its collected deposit & vice-versa.

Total Investment to total asset average ratio of SCBNL is higher than other banks likewise NABIL, EBL and NSBI. It means SCBNL has used more assets for investment and EBL has used fewer assets for investment than other banks.

Investment on government securities to total assets ratio of SCBNL is higher than other banks. It means SCBNL has mobilized their assets as investment in government securities more than other banks.

Investment on share debenture to total assets ratio of SCBNL is higher than other banks likewise NABIL, EBL and NSBI. On the basis of mean ratios, it can be stated that NSBI has invested higher amount in shares and debentures in comparison to other banks. But it shows that all banks invest fewer funds in share and debentures of other companies. All the banks don't invest much on share and debenture of other company. It may be because of higher risk involved with it. But commercial bank should invest in other company's shares also to develop the industry and to develop the country.

All banks increasing their investment in different sectors. NSBI has higher growth rate of investment than other banks, likewise SCBNL, NABIL and EBL. SCBNL has higher amount of investment than other banks.

All the banks are increasing their deposits. NSBI has higher growth ratio of deposit than other bank. NABIL has collected higher deposit than other banks.

All the banks are increasing its loan and advances. EBL has higher growth ratio than other banks likewise SCBNL, NABIL and NSBI. NABIL has higher loan and advances than other banks.

The capital adequacy ratio of SCBNL is higher than other banks. But it shows that all banks maintained NRB's required CAR i.e. greater than 11 percentage except NABIL. Thus it serves to protect depositors and maintain stability & efficiency of the financial system. Maintaining higher CAR is good, but in shareholder's point of view, it is not better because of idle fund and is not being transferred to credit which ultimately affect the profit.

All four banks are decreasing its LLP Ratio. Among the banks NSBI has the highest LLP Ratio (4.83) than SCBNL, NABIL and EBL. It is so because of high NPL Ratio. There is direct relationship between NPL Ratio and LLP Ratio. Here SCBNL has maintained the lowest LLP Ratio so they have better credit management.

According to CRR of all four banks are in fluctuating trends. EBL has highest ratio (63.54%) than other SCBNL, NABIL, & NSBI. Comparatively, SCBNL has lowest risk ratio (35.44%) than other banks. It indicates that SCBNL has low possibility of loss than that other bank.

There is significant relationship between deposit and investment plus loan & advances of four banks. This means if deposit increases then investment plus loan & advances of the bank also increases. It is clear from the above table that correlation of coefficient and coefficient of determinant of NSBI is higher than that of SCBNL, NABIL & EBL bank respectively. This shows that NSBI is at the better position in mobilizing deposit and investment plus loan & advances in comparison to other banks.

Investment trend analysis of commercial banks is in increasing trend. Other things remaining the same, the Investment of NABIL will be higher than the other banks. Similarly SCBNL, EBL, and NSBI. From the above Investment trend it is clear that NABIL run far ahead than other banks.

Deposit trend analysis of commercial banks is in increasing trend. Other things remaining the same, the Deposit of NABIL will be higher than the other banks, Similarly SCBNL, EBL, and NSBI. From the above Deposit trend it indicates that the performance of NABIL to collect deposit is better comparison to other banks.

### **5.3 Recommendation**

On the basis of analysis of finding of study, the following recommendation and suggestion are forwarded:

- ) The average ratio of investment plus loan and advance to total deposit ratio of NSBI is higher than that of other banks, it means it has invested more than deposit so that its liquidity position is not good. So, it decreases its investment.

- ) EBL has invested its more funds only in government securities so it is recommended that it should invest in other different sector.
- ) Growth ratio of deposit of SCBNL is too less than that of other banks so it is suggested that it should increased its deposit collection.
- ) Growth ratio of loan and advance of SCBNL is lower than that of other banks so it is recommended that it should increased its loan and advance.
- ) All that of banks invested fewer funds in share and debenture of other companies, so it is recommended that they should increase their investment in share and debenture.
- ) All banks have invested their funds only in government securities and share and debentures of other companies so it is recommended that they should invest other sector also.
- ) The commercial banks have been established gradually after the commercial banks act 2031 B.S. With the passage of time so many commercial banks, as a joint venture, have been established gradually because of the liberal and market friendly economic policy of government of Nepal. But banks should provide some social response by expanding their operation in rural areas rather than urban areas. And banks can give response to poor and disadvantage groups. By establishing the branches in rural areas, minimum amount for opening accounts and interest rate should be reduced for creditors.
- ) In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients.
- ) Diversification of investment is highly suggested to the selected bank as they have given priority to invest in government securities only. All banks seem risk avoider as they have invested highest amount in risk free securities. Higher the risk higher will be the profit. Hence, all banks are recommended to diversify their investment in NRB bond, govt. non financial institution, other non-financial institution etc.
- ) Majority of commercial banks have been found to be profit oriented ignoring their social responsibility, which is not a proper strategy to sustain in long run. So all the banks are suggested to render their serves

even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the goodwill of the banks in future.

- ) The Economic Liberalization policy adopted by Nepal government has created an environment of strict competition even in the banking sectors. In the context, all the banks are suggested to formulate and implement some sound and attractive financial; and non-financial strategies to meet required level of profitability as well as the social responsibility.
- ) The commercial banks i.e. Standard Chartered Bank Nepal, Nabil Bank, Everest Bank and Nepal NSBI Bank Limited should go for some new areas of investment like hydro electricity and infrastructure development of the economy as well as bank's operation.
- ) Standard Chartered Bank Nepal, Nabil Bank, Everest Bank and Nepal NSBI Bank Limited should target their business segment on the middle family. For this they have to keep the affordable minimum balance to open the account. So that they can earn more customer and generate more deposit amount.
- ) All four banks should support the social welfare event to promote the business. The bank should formulate new strategies of serving customers in a more convenient way.

## ANNEX - 1

### Sample Calculation of Growth Rate of Total Investment

Growth rate is calculated from

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

$D_{nth,yrs}$  = Total Investment of nth year  $n$

$D_0$  = Total Investment of Initial year  $o$

$g$  = Growth Rate

$n$  = Number of Year

#### SCBNL

Here,

$$D_{67/68} = 17259$$

$$D_{63/64} = 13564$$

$$N = 5\text{yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 17259 = 13564(1+g)^4$$

$$\text{Or, } 1.2724 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.2724)^{1/4}$$

$$\text{Or, } 1+g=1.0620$$

$$\text{Or, } g = 1.0620 - 1$$

$$\text{Or, } g=0.0620$$

$$\dots g = 6.20\%$$

#### NABIL

Here,

$$D_{66/67} = 13612$$

$$D_{62/63} = 6175$$

$$N = 5\text{yr}$$

$$D_{66/67} = D_{62/63} (1 + g)^{5-1}$$

$$\text{Or, } 13081 = 8952(1+g)^4$$

$$\text{Or, } 1.4612 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.4612)^{1/4}$$

$$\text{Or, } 1+g=1.0994$$

$$\text{Or, } g = 1.0994 - 1$$

$$\text{Or, } g=0.0994$$

$$\dots g = 9.94\%$$

**EBL**

Here,

$$D_{67/68} = 7744$$

$$D_{63/64} = 4985$$

$$N = 5 \text{ yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 7744 = 4985(1+g)^4$$

$$\text{Or, } 1.5535 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.5535)^{1/4}$$

$$\text{Or, } 1+g=1.1164$$

$$\text{Or, } g = 1.1164-1$$

$$\text{Or, } g=0.1164$$

$$\dots g = 11.64\%$$

**SBI**

Here,

$$D_{67/68} = 18911$$

$$D_{63/64} = 2378$$

$$N = 5 \text{ yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 18911 = 2378 (1+g)^4$$

$$\text{Or } 7.9525 = (1+g)^4$$

$$\text{Or, } (1+g) = (7.9525)^{1/4}$$

$$\text{Or, } 1+g=1.6793$$

$$\text{Or, } g = 1.6793-1$$

$$\text{Or, } g=0.6793$$

$$\dots g = 67.93\%$$

## ANNEX – 2

### Sample Calculation of Growth Rate of Deposit

#### SCBNL

Here,

$$D_{67/68} = 37999$$

$$D_{63/64} = 24640$$

$$N = 5\text{yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 37999 = 24640(1+g)^4$$

$$\text{Or, } 1.5422 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.5422)^{1/4}$$

$$\text{Or, } 1+g=1.1144$$

$$\text{Or, } g = 1.1144-1$$

$$\text{Or, } g = 0.1144$$

$$\dots g = 11.44\%$$

#### NABIL

Here,

$$D_{67/68} = 49691$$

$$D_{63/64} = 23342$$

$$N = 5\text{yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 49691 = 23342(1+g)^4$$

$$\text{Or, } 2.1288 = (1+g)^4$$

$$\text{Or, } (1+g) = (2.1288)^{1/4}$$

$$\text{Or, } 1+g=1.2079$$

$$\text{Or, } g = 1.2079-1$$

$$\text{Or, } g=20.79\%$$

$$\dots g = 24.40\%$$

### **EBL**

Here,

$$D_{67/68} = 44128$$

$$D_{63/64} = 19098$$

$$N = 5\text{yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 44128 = 19098(1+g)^4$$

$$\text{Or, } 2.3106 = (1+g)^4$$

$$\text{Or, } (1+g) = (2.3106)^{1/4}$$

$$\text{Or, } 1+g=1.2329$$

$$\text{Or, } g = 1.2329-1$$

$$\text{Or, } g=0.2329$$

$$\dots g = 23.29\%$$

### **SBI**

Here,

$$D_{67/68} = 42415$$

$$D_{63/64} = 11445$$

$$N = 5\text{yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 42415 = 11445(1+g)^4$$

$$\text{Or, } 3.7059 = (1+g)^4$$

$$\text{Or, } (1+g) = (3.7059)^{1/4}$$

$$\text{Or, } 1+g=1.3875$$

$$\text{Or, } g = 1.3875-1$$

$$\text{Or, } g=0.3875$$

$$\dots g = 38.75\%$$

## ANNEX – 3

### Sample Calculation of Growth Rate of Loan and Advances

#### SCBNL

Here,

$$D_{67/68} = 15932$$

$$D_{63/64} = 8905$$

$$N = 5\text{yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 15932 = 8905(1+g)^4$$

$$\text{Or, } 1.7891 = (1+g)^4$$

$$\text{Or, } (1+g) = (1.7891)^{1/4}$$

$$\text{Or, } 1+g=1.1565$$

$$\text{Or, } g = 1.1565-1$$

$$\text{Or, } g=0.1565$$

$$\dots g = 15.65\%$$

#### NABIL

Here,

$$D_{67/68} = 32903$$

$$D_{63/64} = 13021$$

$$N = 5\text{yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 32903 = 13021(1+g)^4$$

$$\text{Or, } 2.5269 = (1+g)^4$$

$$\text{Or, } (1+g) = (2.5269)^{1/4}$$

$$\text{Or, } 1+g=1.2608$$

$$\text{Or, } g = 1.2608-1$$

$$\text{Or, } g=0.2608$$

$$\dots g = 26.08\%$$

**EBL**

Here,

$$D_{67/68} = 28130$$

$$D_{63/64} = 10124$$

$$N = 5\text{yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 28130 = 10124(1+g)^4$$

$$\text{Or, } 2.7785 = (1+g)^4$$

$$\text{Or, } (1+g) = (2.7785)^{1/4}$$

$$\text{Or, } 1+g=1.2911$$

$$\text{Or, } g = 1.2911-1$$

$$\text{Or, } g=0.2911$$

$$\dots g = 29.11\%$$

**SBI**

Here,

$$D_{67/68} = 17887$$

$$D_{63/64} = 8060$$

$$N = 5\text{yr}$$

$$D_{67/68} = D_{63/64} (1 + g)^{5-1}$$

$$\text{Or, } 17887 = 8060(1+g)^4$$

$$\text{Or, } 2.2192 = (1+g)^4$$

$$\text{Or, } (1+g) = (2.2192)^{1/4}$$

$$\text{Or, } 1+g=1.2205$$

$$\text{Or, } g = 1.2205-1$$

$$\text{Or, } g=.2205$$

$$\dots g = 22.05\%$$

## ANNEX – 4

### a.) Calculation of co-relation between Deposit and Investment plus Loan & Advanced of SCBNL.

(Rs. in million)

Year	Deposit (x)	Investment + Loan & Advanced (y)	X= (x - $\bar{x}$ )	Y= (y - $\bar{y}$ )	XY	X <sup>2</sup>	Y <sup>2</sup>
2063/64	24640	24102	-6647	-6375	42378770.38	44187926.76	40643685.06
2064/65	29744	27612	-5058	-4029	20376261.18	25579317.76	16231551.75
2065/66	35350	33916	46	-873	-40164.44	2116	762373.4596
2066/67	35183	35803	6174	3628	22399897.02	38117041.21	13163544.99
2067/68	37999	35685	5485	7649	41955859.01	30086322.01	58508118.88
<b>Total</b>	<b>148490</b>	<b>140655</b>			<b>127070623.2</b>	<b>137972723.7</b>	<b>129309274.1</b>

$$\bar{x} = \frac{\sum X}{N} = \frac{148490}{5} = 29698$$

$$\bar{y} = \frac{\sum Y}{N} = \frac{140655}{5} = 28131$$

$$\begin{aligned} \text{Coefficient of Correlation (r)} &= \frac{\sum XY}{\sqrt{\sum X^2 \mid \sum Y^2}} \\ &= \frac{127070623.2}{\sqrt{137972723.7 \mid 129309274.1}} \\ &= 0.9513 \end{aligned}$$

$$\text{Coefficient of determination (r}^2\text{)} = 0.9050$$

$$P.E(r) = 0.6745 \times \frac{\sum f_i Z r^2 A}{\sqrt{n}} = 0.6745 \times \frac{(1 Z 0.9050)}{\sqrt{5}} = 0.0286$$

$$6P.E(r) = 6 \times 0.0286 = 0.1719$$

**b) Calculation of co-relation between Deposit and Investment plus Loan & Advanced of NABIL.**

**(Rs. in millions)**

Year	Deposit (x)	Investment + Loan & Advanced (y)	X= ( $\bar{x} - \bar{x}$ )	Y= ( $\bar{y} - \bar{y}$ )	XY	X <sup>2</sup>	Y <sup>2</sup>
2063/64	<b>23342</b>	24609	-12309	-12902	158821306.8	151521820.7	166472441.9
2064/65	<b>31915</b>	31482	-8315	-7490	62279335.94	69146209.78	56094407.74
2065/66	<b>37348</b>	38692	257	-617	-158710.9216	66141.5524	380837.0944
2066/67	<b>46335</b>	46515	5690	6593	37516651.78	32381562.63	43466066.69
2067/68	<b>51846</b>	51846	14677	14416	211590336.5	215419612.8	207829129
<b>Total</b>	<b>158289</b>	<b>160494</b>			<b>470048920.1</b>	<b>468535347.4</b>	<b>474242882.4</b>

$$\bar{x} = \frac{\sum X}{N} = \frac{158289}{5} = 31657.8$$

$$\bar{y} = \frac{\sum Y}{N} = \frac{160494}{5} = 32098.8$$

$$\begin{aligned} \text{Coefficient of Correlation (r)} &= \frac{\sum XY}{\sqrt{\sum X^2 \mid \sum Y^2}} \\ &= \frac{470048920.1}{\sqrt{468535347.4 \mid 474242882.4}} \\ &= 0.9972 \end{aligned}$$

$$\text{Coefficient of determination (r}^2\text{)} = 0.9944$$

$$P.E(r) = 0.6745 \times \frac{\sqrt{1 - r^2}}{\sqrt{n}} = 0.6745 \times \frac{\sqrt{1 - 0.9944}}{\sqrt{5}} = 0.0017$$

$$6P.E(r) = 6 \times 0.0017 = 0.0102$$

c) **Calculation of co-relation between Deposit and Investment plus Loan & Advanced of EBL.**

(Rs. in millions)

Year	Deposit (x)	Investment + Loan & Advanced (y)	X= (x - $\bar{x}$ )	Y= (y - $\bar{y}$ )	XY	X <sup>2</sup>	Y <sup>2</sup>
2063/64	19098	19044	-11624	-9815	114087168.2	135112261.5	96333832.4
2064/65	23976	23875	-6329	-5096	32250317.1	40050924.8	25969012.2
2065/66	33323	30316	-1450	-265	384070.7	2102442.0	70161.4
2066/67	36932	33140	7897	6176	48769683.1	62356607.4	38143223.0
2067/68	44128	39278	11506	9000	103549409.0	132381592.7	80996760.0
<b>Total</b>	<b>127131</b>	<b>120701</b>			<b>299040648.1</b>	<b>372003828.4</b>	<b>241512989.0</b>

$$\bar{x} = \frac{\sum X}{N} = \frac{127131}{5} = 25426.2$$

$$\bar{y} = \frac{\sum Y}{N} = \frac{120701}{5} = 24140.2$$

$$\begin{aligned} \text{Coefficient of Correlation (r)} &= \frac{\sum XY}{\sqrt{\sum X^2 \mid \sum Y^2}} \\ &= \frac{299040648.1}{\sqrt{372003828.4 \mid 241512989.0}} \\ &= 0.9978 \end{aligned}$$

$$\text{Coefficient of determination (r}^2\text{)} = 0.9953$$

$$P.E(r) = 0.6745 \times \frac{\sum Zr^2 A}{\sqrt{n}} = 0.6745 \times \frac{(1 Z 0.9953)}{\sqrt{5}} = 0.0014$$

$$6P.E(r) = 6 \times 0.0014 = 0.0084$$

d) **Calculation of co-relation between Deposit and Investment plus Loan & Advanced of SBI.**

(Rs. In millions)

Year	Deposit (x)	Investment +Loan & Advanced (y)	X= ( $\bar{x} - \bar{x}$ )	Y= ( $\bar{y} - \bar{y}$ )	XY	X <sup>2</sup>	Y <sup>2</sup>
2063/64	11445	12224	-8921	-8760	78146953.8	79577104.4	76742505.7
2064/65	13715	15722	-8328	-8296	69086419.8	69357249.6	68816647.5
2065/66	27957	28751	-6058	-4798	29065683.0	36698152.4	23020612.1
2066/67	34896	34142	8184	8232	67366754.9	66976219.2	67759567.8
2067/68	42415	40568	15123	13622	206004746.4	228696055.3	185564877.7
<b>Total</b>	<b>98867</b>	<b>102599</b>			<b>449670557.9</b>	<b>481304780.9</b>	<b>421904210.8</b>

$$\bar{x} = \frac{\sum X}{N} = \frac{98867}{5} = 19773.4$$

$$\bar{y} = \frac{\sum Y}{N} = \frac{102599}{5} = 20519.8$$

$$\begin{aligned} \text{Coefficient of Correlation (r)} &= \frac{\sum XY}{\sqrt{\sum X^2 \mid \sum Y^2}} \\ &= \frac{449670557.9}{\sqrt{481304780.9 \mid 421904210.8}} \\ &= 0.9979 \end{aligned}$$

$$\text{Coefficient of determination (r}^2\text{)} = 0.9958$$

$$P.E(r) = 0.6745 \times \frac{\sum Zr^2 A}{\sqrt{n}} = 0.6745 \times \frac{(1 Z 0.9958)}{\sqrt{5}} = 0.0013$$

$$6P.E(r) = 6 \times 0.0013 = 0.0078$$

## Trend Analysis

### ANNEX – 5a

**Trend analysis of Total Investment of SCBNL for the year 2068/69 to 2072/73**

(Rs. in millions)

Year (t)	Investment (y)	x=t-2065	x <sup>2</sup>	xy	Yc =a+bx
2063/64	13564	-2	4	-43511.4	20989.82
2064/65	13903	-1	1	-24102.1	24560.38
2065/66	20236	0	0	0	28130.94
2066/67	19848	1	1	31759.1	31701.5
2067/68	17259	2	4	71560	35272.06
<b>Total</b>	<b>y=140655</b>	<b>x=0</b>	<b>x<sup>2</sup>=10</b>	<b>xy=35705.60</b>	<b>140654.70</b>

N = No. of years

y = Total Investment

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

$$= \frac{140655}{5}$$

$$= 28131$$

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

$$= \frac{35705.60}{10}$$

$$= 3570.56$$

**Trend value of total Investment of SCBNL (2068/69 to 2072/72)**

Year(t)	x=t-2065	Trend value (Yc = a+bx)
2068/69	3	38842.6
2069/70	4	42413.2
2070/71	5	45983.7
2071/72	6	49554.3
2072/73	7	53124.9

**The equation of straight line trend is Yc = a+bx**

**Yc = 28131+3570.56x**

## ANNEX – 5b

### Trend analysis of Total Investment of NABIL for the year 2068/69 to 2072/7

(Rs. in millions)

Year (t)	Investment (y)	x=t-2065	x <sup>2</sup>	xy	Y <sub>c</sub> =a+bx
2063/64	8952	-2	4	-38392.6	18354.8
2064/65	9967	-1	1	-24609.1	25226.8
2065/66	10875	0	0	0	32098.8
2066/67	13612	1	1	38691.6	38970.8
2067/68	46515	2	4	93030	45842.8
<b>Total</b>	<b>y=160494</b>	<b>x = 0</b>	<b>x<sup>2</sup>=10</b>	<b>xy=68719.90</b>	

N = No. of years

y = Total Investment

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

$$= \frac{160494}{5}$$

$$= 32098.80$$

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

$$= \frac{68719.90}{10}$$

$$= 6871.99$$

### Trend value of total Investment of NABIL (2068/69 to 2072/73)

Year(t)	x=t-2065	Trend value (Y <sub>c</sub> = a+bx)
2068/69	3	52714.80
2069/70	4	59586.80
2070/71	5	66458.80
2071/72	6	73330.80
2072/73	7	80202.80

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

$$Y_c = 32098.80+6871.99x$$

## ANNEX – 5c

### Trend analysis of Total Investment of EBL for the year 2068/69 to 2072/73

(Rs. in millions)

Year (t)	Investment (y)	x=t-2065	x <sup>2</sup>	xy	Y <sub>c</sub> =a+bx
2063/64	4985	-2	4	-28650.4	14359.86
2064/65	5061	-1	1	-19044.2	19250.02
2065/66	5950	0	0	0	24140.18
2066/67	5010	1	1	30316.2	29030.34
2067/68	7744	2	4	66280.0	43700.82
<b>Total</b>	<b>y=120700</b>	<b>x = 0</b>	<b>x<sup>2</sup>=10</b>	<b>xy=48901.6</b>	

N = No. of years

$\phi y$  = Total Investment

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

$$= \frac{120700}{5}$$

$$= 24140$$

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

$$= \frac{48901.6}{10}$$

$$= 4890.16$$

### Trend value of total Investment of EBL (2068/69 to 2072/73)

Year(t)	x=t-2065	Trend value (Y <sub>c</sub> = a+bx)
2068/69	3	38810.66
2069/70	4	43700.82
2070/71	5	48590.08
2071/72	6	53481.14
2072/73	7	58371.30

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

$$Y_c = 24140+4890.16x$$

## ANNEX – 5d

### Trend analysis of Total Investment of SBI for the year 2067/68 to 2071/72

(Rs.in millions)

Year (t)	Investment (y)	x=t-2065	x <sup>2</sup>	xy	Y <sub>c</sub> =a+bx
2063/64	2378	-2	4	-23519	8261.34
2064/65	3147	-1	1	-12224.2	14390.56
2065/66	13286	0	0	0	20519.78
2066/67	16255	1	1	28751.4	26649.00
2067/68	18911	2	4	68284	32778.22
<b>Total</b>	<b>dy=102599</b>	<b>dx = 0</b>	<b>dx<sup>2</sup> = 10</b>	<b>dxy=61292.2</b>	

N = No. of years

y = Total Investment

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

$$= \frac{102599}{5}$$

$$= 20519.8$$

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

$$= \frac{61292.2}{10}$$

$$= 6129.22$$

### Trend value of total Investment of SBI (2068/69 to 2072/73)

Year (t)	x = t-2065	Trend value (Y <sub>c</sub> = a+bx)
2068/69	3	38907.44
2069/70	4	45036.66
2070/71	5	51165.88
2071/72	6	57295.1
2072/73	7	63424.32

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

$$Y_c = 20519.8 + 6129.22x$$

## ANNEX – 6a

### Trend analysis of Total Deposit of SCBNL for the year 2067/68 to 2071/72

(Rs.in millions)

Year (t)	Deposit (y)	x=t-2065	x <sup>2</sup>	xy	Yc =a+bx
2063/64	24640	-2	4	-46101	22598.6
2064/65	29744	-1	1	-24640.3	26148.25
2065/66	35350	0	0	0	29697.9
2066/67	35183	1	1	35871.8	33247.55
2067/68	37999	2	4	70366	36797.2
<b>Total</b>	<b>y=148490</b>	<b>x=0</b>	<b>x<sup>2</sup>=10</b>	<b>xy=35496.5</b>	

N = No. of years

y = Total Deposit

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

$$= \frac{148490}{5}$$

$$= 29698$$

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

$$= \frac{35496.5}{10}$$

$$= 3549.65$$

### Trend value of Total Deposit of SCBNL (2068/69 to 2072/73)

Year(t)	x=t-2065	Trend value (Yc = a+bx)
2068/69	3	40346.9
2069/70	4	43896.5
2070/71	5	47446.2
2071/72	6	50995.8
2072/73	7	54545.5

The equation of straight line trend is  $Yc = a+bx$

$$Yc = 29698+3549.65x$$

## ANNEX – 6b

### Trend analysis of Total Deposit of NABIL for the year 2067/68 to 2071/72

(Rs.in millions)

Year (t)	Deposit (y)	x=t-2065	x <sup>2</sup>	xy	Yc =a+bx
2063/64	23342	-2	4	-38696.8	18062
2064/65	31915	-1	1	-23342.4	24859.91
2065/66	37348	0	0	0	31657.82
2066/67	46335	1	1	37348.3	38455.73
2067/68	49691	2	4	92670.0	45253.64
<b>Total</b>	<b>y=158289</b>	<b>x=0</b>	<b>x<sup>2</sup>=10</b>	<b>xy=67979.1</b>	

N = No. of years

y = Total Deposit

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

$$= \frac{158289}{5}$$

$$= 31657.8$$

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

$$= \frac{67979.1}{10}$$

$$= 6797.91$$

### Trend value of Total Deposit of NABIL (2068/69 to 2072/73)

Year(t)	x=t-2065	Trend value (Yc = a+bx)
2068/69	3	52051.55
2069/70	4	58849.46
2070/71	5	65647.37
2071/72	6	72445.28
2072/73	7	79243.19

The equation of straight line trend is  $Yc = a+bx$

$$Yc = 31657.8+6797.91x$$

## ANNEX – 6c

### Trend analysis of Total Deposit of EBL for the year 2067/68 to 2071/72

(Rs.in millions)

Year (t)	Deposit (y)	x=t-2065	x <sup>2</sup>	xy	Y <sub>c</sub> =a+bx
2063/64	19098	-2	4	-27605	13329.44
2064/65	23976	-1	1	-19097.7	19377.86
2065/66	33323	0	0	0	25426.28
2066/67	36932	1	1	33322.9	31474.7
2067/68	44128	2	4	73864	37523.12
<b>Total</b>	<b>y=127132</b>	<b>x=0</b>	<b>x<sup>2</sup>=10</b>	<b>xy=60484.2</b>	

N = No. of years

∑y = Total Deposit

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

$$= \frac{127132}{5}$$

$$= 25426.4$$

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

$$= \frac{60484.2}{10}$$

$$= 6048.42$$

### Trend value of Total Deposit of EBL (2068/69 to 2072/73)

Year(t)	x=t-2065	Trend value (Y <sub>c</sub> = a+bx)
2068/69	3	43571.5
2069/70	4	49620
2070/71	5	55668.4
2071/72	6	61716.8
2072/73	7	67765.2

The equation of straight line trend is Y<sub>c</sub> = a+bx

$$Y_c = 25426.4 + 6048.42x$$

## ANNEX – 6d

### Trend analysis of Total Deposit of SBI for the year 2068/69 to 2072/73

(Rs. in millions)

Year (t)	Deposit (y)	x=t-2065	x <sup>2</sup>	xy	Y <sub>c</sub> =a+bx
2063/64	11445	-2	4	-21705.4	6853.58
2064/65	137155	-1	1	-11445.2	13313.44
2065/66	27957	0	0	0	19773.3
2066/67	34896	1	1	27957.2	26233.16
2067/68	42415	2	4	69792	32693.02
<b>Total</b>	<b>y=98866</b>	<b>x=0</b>	<b>x<sup>2</sup>=10</b>	<b>xy=64598.6</b>	

N = No. of years

y = Total Deposit

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

$$= \frac{98866}{5}$$

$$= 19773.2$$

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

$$= \frac{64598.6}{10}$$

$$= 6459.86$$

### Trend value of Total Deposit of SBI (2068/69 to 2072/73)

Year(t)	x=t-2065	Trend value (Y <sub>c</sub> = a+bx)
2068/69	3	39152.9
2069/70	4	45612.7
2070/71	5	52072.6
2071/72	6	58532.5
2072/73	7	64992.3

The equation of straight line trend is Y<sub>c</sub> = a+bx

$$Y_c = 19773.2+6459.86x$$

## ANNEX-7

### Sample of Commercial Banks & their Date of Operation in B.S.

S.N.	Name of the commercial Bank	Date of Operation in B.S.
1.	Nepal Bank Limited	1994/07/30
2	Rastriya Banijya Bank	2022/10/10
3	NABIL Bank Limited	2041/04/01
4	Nepal Investment Bank Limited	2042/11/26
5	Standard Chartered Bank Nepal Limited.	2043/10/16
6	Himalayan Bank Limited	2049/10/05
7	Nepal Bangladesh Bank Limited	2050/02/23
8	Nepal SBI Bank Limited	2050/03/23
9	Everest Bank Limited	2051/07/02
10	Bank of Kathmandu Limited	2051/11/28
11	Nepal Credit and Commerce Bank Limited	2053/06/28
12	NMB Bank Ltd.	2053/08/13
13	Lumbini Bank Limited	2055/04/01
14	Nepal Industrial & Commercial Bank Limited	2055/04/05
15	Siddhartha Bank Limited	2056/09/09
16	Machhapuchhre Bank Limited	2057/06/17
17	Development Credit Bank Ltd.	2057/10/10
18	Kumari Bank Limited	2057/12/21
19	Laxmi Bank Limited	2058/12/21
20	Agriculture Development Bank Ltd.	2062/11/19
21	Global Bank Ltd.	2063/09/18
22	Citizens Bank International Ltd.	2064/03/07
23	Prime Commercial Bank Ltd.	2064/06/07
24	Sun Rise Bank Ltd.	2064/06/25
25	Bank of Asia Nepal Ltd.	2064/06/25
26	Kist Bank Ltd.	2065
27	Janata Bank Ltd.	2067
28	Mega Bank Ltd.	2067
29	Commerze & Tourism Bank	2067
30	Civil Bank Ltd.	2067
31	Century Commercial Bank Ltd.	2068
32	Sanima Bank ltd	2068

(Source: Banking and Financial Statistic 44, Mid-July, 2011, p 48)

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