

CHAPTER-I

INTRODUCTION

1.1 General Background of the study

Nepal is a landlocked country surrounded by hills and mountains. It is lying between the two giant country India and China. The Southern part of the country consists of plain land that covers 17 % of the total land. Hence we can say that 83% of the total land is covered by hills and mountains. The economy of the country depends upon agriculture. The exports are agro products such as sugar, rice, paddy wheat, timber, oil seeds and major so no. products are produced for consumption purpose not for business purpose. Therefore majority of the crops are not considered as cash crops. The government from its first five year plan is targeting to shift the over depending of this sector to other sector.

In many developing countries like Nepal, there is great challenge to the nation to eliminate the mass poverty of the country through gradual development of those areas and to provide basic needs to the people who are really very poor. Keeping in view these challenges in front of the country, several important program have been launched but no vital achievement had got in the past. The growth of nation is only possible when saving and investment propensities are done. In Nepal, the real income is very low that's why the rate of saving is also low so the basic problem is raising the level of saving and investment. These problems can be solved only when the country can grasp the path of developing banks. (*Sharma, 2001:56*)

"Bank assists both the flow of goods and services from the producer to the customer and the financial activities of the government. Banking provides the country with a monetary system of making payment and is an important part of financial system, which makes loans to maintain and increase the level of consumption and production in the economy." (*The American Bankers Association, 1972:162*)

Ordinary banking business consists of changing cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank exchange, government bonds, the secured or unsecured promises of businessman to repay etc. Hence, a bank is an institution which accepts deposits from public and in turn advances loans by creating credits. Bank should be differentiated from other financial institutions as they cannot create credit though they

accept deposits. Therefore, a bank must be identified by its function, services and its roles towards public, industrialists and other sectors in the economy.

Investing involves making a current commitment of funds in order to obtain an uncertain future return. It is a risky business that demands information. To process information effectively and select the best investment requires goals that are clear cut and realistic. In simple term investment is making a current commitment of funds that is expected to generate additional money in future. Nevertheless, in the broadest sense it means the sacrifice of current rupees for future rupees that take place at present and certain time. (*Van Horne; 2002:174*)

The word 'investment' connects the investment of income, saving or other collected funds. Investment is possible only when there is adequate saving. If all the incomes are consumed now for fulfilling basic needs, then there is nothing to investment. Therefore, both the saving and investment are interrelated. A distinction is often made between investments and saving, saving is defined as foregone consumption; investment is restricted to real investment of the sort that increases national output in the futures. It is always true that all people want to invest their money in the most profitable opportunities for good return, but there is always risk associated with it. (*Bhattari; 2010:120*)

Therefore, it can be said that investment is concerned with the management of the investor's wealth. Funds to be invested come from trade assets already owned, borrowed money, and saving or foregone consumption. By foregoing consumption today and investing the saving, investors expect to enhance their future consumption possibilities, i.e. they are invested to increase wealth. Investors also seek to manage their wealth effectively by obtaining the most profit while protecting it from inflation, taxes and other factors. Thus investment policies are the strategies of finding out the answers of where to invest? How much to invest? When to invest? And where is to invest? However, there are no specific rules regarding investment policy of a bank and thus it has to keep increasing the safety and liquidity of its resources to meet the potential demand of its customers. Since the objective of profitability conflicts with those of safety and liquidity, the wise investment policy is to strike a judicious balance between them. Therefore, a bank has to lay down its investment policy in

such a manner to ensure the safety and liquidity of its funds and at the same time maximizing its profits. (*Rana and Thapa; 2011:56*)

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in the saving account of a bank, the bank may invest by lending the funds to various business firms. These firms in return may invest the money in new factories and equipment to increase their production. In addition to borrowing from banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest its projects, such as the construction of dams, roads and schools. Nepal Rastra Bank on behalf of the Government of Nepal issues bonds, treasury bills to finance the long-term and short-term needs of the government. All such investments by individuals, firms and government involve present sacrifice of income to get an expected future benefit. As a result of which, investment raises a nation's standard of living.

1.2 Focus of the study

The investment policy of the bank depends on the nature of its funds. If it can acquire funds of more or less permanent nature, it can acquire more profitable assets. If the funds are subject to wide fluctuations, it has to keep a large part of the funds in liquid form. It is said that the soundness of a bank is reflected in the distribution of its funds on different types of assets. A good banker is the one who follows a wise investment policy which brings maximum profit to shareholders and provides maximum security to the depositors. A bank is fundamentally governed by three important principles in formulating its investment policy. The guiding principles of the investment policy of a commercial bank are liquidity, profitability and security. These three attributes are interrelated. The bank cannot afford to sacrifice one in favor of the others. So the study is based on investment policy of the joint venture banks in Nepal. There are 32 commercial banks in Nepal among which 8 are joint venture, but it is not possible to cover all the banks in the study. So only two commercial banks which are also a joint venture are chosen. So the study will analyze financial statement of the chosen banks and whether the investment policy followed by them is relevant or not. The selected banks for the study are as follows:

1.2.1 NABIL Bank Limited:

NABIL Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984 under the company act 1964. The initial foreign partner handed its share to Emirates Bank Limited and now its shares are transferred to National Bank Limited in January 1, 2002. The bank was renamed as NABIL Bank Limited; previously it was named Nepal Arab Bank Limited. Out of total share, National Bank Limited (Bangladesh) holds 50% share and remaining 30% by general public and 20% by financial institution.

NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele banking system.

1.2.2 Standard Chartered Bank Limited (SCBNL):

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status the largest international bank currently operating in Nepal. An integral part of the only international banking group currently operating in Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Wholesale and Consumer banking, catering to a wide range of customers

from individuals, to mid-market local corporate to multinationals and large public sector companies, as well as embassies, aid agencies, airlines, hotels and government corporations. 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 and highest level of service delivery. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

1.3 Statement of the Problems

After the restoration of democracy, the first elected government in 1991 adopted liberalized and market-oriented economic policies followed by liberalization in the financial sector and its reforms. As a consequence, many commercial banks, development banks, financial institutions, financial cooperative societies and NGOs operating in micro finance have mushroomed in the country. There are substantial numbers of commercial banks, development banks and other financial institution that is operating to assist the process of economic development of the country.

All commercial banks play vital role in the mobilization of financial resources by accepting deposits from the public and providing loans and advances to industrial and trading organizations, and as such they gear up the development of business in the country. The economic development of the country thus depends on the volume of investments made by the commercial banks. However, due to the growing competitions among the commercial banks themselves and with other financial institutions they seem to be unable to enhance their investments *vis-à-vis* the large amount of deposits raised from the public. In other words, commercial banks seem to be unable to formulate and implement strategic investment policy to invest their funds. Meanwhile, they are also facing some criticism that these banks serves only richer community of limited urban areas and not the poor communities in the vast rural areas of the country, and thus they do not seem to be able to invest their funds in vast areas of the country. Their investment policies generally seem to be guided by the philosophy of “be less risky and high liquid”. Therefore, all banks and financial institutions tap the same market for their investment of funds, which is really a risky as well as less profitable affair. They have to redesign their investment policy and strategy to explore new markets for investment.

Effective utilization of fund is possible only through the formulation and implementation of sound investment policy and strategy of these banks. Due to the lack of formulation of sound investment policy and strategy, Due to the lack of sound investment policy of commercial banks, however, these banks seem to be fallen in the trap of risk. They seem to be failed to make proper analysis of various types of risk such as financial risk, interest rate risk, liquidity risk, business risk, and so on.

The formulation of an appropriate investment policy is a must in all the commercial banks, joint venture and other financial institutions. The present study has sought to answer the following research questions about the selected joint venture banks:

- Are SCBNL's and NABIL's investment strategy successful to utilize its available fund?
- Is the liquidity, profitability, risk positions in asset management of these commercial banks satisfactory?
- Is there any relationship between the banks' total deposits and loans and advances, total deposit and total investment and total outside assets and net profit?
- What are the trends of their deposits, loans and advances, investment and net profits?

1.4 Objectives of the Study:

The main objective of the present study is to analyze the liquidity position as well as the investment policy adopted by SCBNL and NABIL and comparison of these banks. Presently the bankers are facing a huge tension of liquidity and this is not a good signal toward the performance of the banks. The study focuses whether it is backward or forward in investing its fund efficiently in industry average. The specific objectives of the study are given below:

- To examine the fund mobilization and investment policy of SCBNL and NABIL.
- To evaluate the different ratios such as liquidity, efficiency, leverage, profitability and growth ratios of these Joint Venture Banks.

- To find out the relationship between the banks' total deposits and loans and advances, total deposit and total investment and total outside assets and net profit.
- To provide suggestions and recommendation on the basis of the study.

1.5 Limitations of the Study

The study suffers from some limitations. The main limitations of the study have been as follows:

- The study is carried out only period of five years of trend of concerned banks.
- This study only secondary data which are collected from the annual report of concerned banks.
- Only two joint venture banks are selected for the study, which are SCBNL and NABIL.
- The study focuses only on investment aspect of banks' performance.
- Out of numerous affecting factors, only those factors related with investment policy are considered.
- This study deals with limited financial and statistical tools. Hence, the drawbacks and weakness of those tools are the limitations of the study as well.

1.6 Organization of the Study:

The whole study comprised of the five different consecutive parts as mentioned below:

Chapter I: Introduction:

This chapter comprises of general background of the study, focus of the study, statement of the problems, objectives of the study and organization of the study.

Chapter II: Review of Literature:

This part deals with the reviewing of the various literatures, definitions and concept of investment policy. This also consists of the review of the related studies, journals, articles and review of books concerned to investment policy.

Chapter III: Research Methodology:

This part consists of the research design, total population and sample of the study, nature and sources of the data, data collection procedures and the analytical tools and techniques used in the study.

Chapter IV: Data Presentation and Analysis:

This part constitutes the tabular and graphical representation of the collected data, their interpretation and analysis using various financial as well as statistical tools. Summary of the major findings are also presented at the end of the chapter.

Chapter V: Summary, Conclusion and Recommendation:

This chapter contains the summary of the whole study and relevant conclusions were drawn based on the study. A suitable set of recommendations were made at the end of the chapter.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature is basically a stock taking of available literature in the field of research. It supports the research to explore the relevant and time facts for the reporting propose in the field of study. In the course of research view of the existing literature would help to check the chances of duplication in the present study. Thus one can find what studies have been made conducted and what remains to go with. *(Joshi; 2010:74)*

The purpose of this chapter is to review the relevant literature regarding the investment policy of joint venture banks in Nepal so as to formulate the appropriate research problem, hypotheses, and the research gap between the previous research studies and the present study. Such a review has been made from various sources of literature available in different libraries, documentation centre, Nepal Stock Exchange Ltd., other information bureaus and the concerned banks, i.e., SCBNL and NABIL. This chapter presents the conceptual framework, review of articles, research papers and previous research studies relevant to this study, and the research gap.

2.1 Conceptual Framework

There is an important role of banks in the economic growth and development of a country. To achieve an ideal economic growth and development of the country, banks should have strong and well-managed organization of banking system. When banking is appropriately organized, it aids and facilitates the growth of trade and industry and hence of national economy. 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. In modern economy, banks are considered not as dealer of money but as the leaders of development.

Banks are not only the warehouse of the country's wealth but are also the reservoirs of the resources necessary for the economic growth of the country. 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.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country. No function is more important to the economy and it constitutes than financing. "Bank assists both the flow of goods and service from the producers to the consumers and financial activities of the government. Banking provides the country with a monetary system of payment and it is important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy." (*American Institute of Banking; 1972:162*)

Investment involves long-term commitment and waiting for a reward. The sacrifice takes place in the present and is certain while the rewards come later and uncertain. The business of banking is collection of funds from the community and extension of credit to people for useful purposes. Banks have played a pivotal role in making money from lenders to borrowers. Banking is a profit seeking business, not a community to carry profit seeker, expected to pay dividend and otherwise, add to wealth of shareholders. (*Grywinshki; 1993: 87*)

2.1.1 Concept of Joint Venture Banks

Commercial banks are those banks, which perform all kinds of banking functions as accepting deposits, advancing credits, credit creation and agency functions etc. They provide short-term, medium-term and long term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, letter of credit etc. In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries as they are considered as the main source of finance. The commercial banks are those banks that pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means." (*Baidya, 2001:38*)

Joint venture banks are the commercial banks formed by joining a two or more enterprises, for the purpose of carrying out of specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods and services. (Van Horne; 2002:174)

In generally, When two commercial banks, from different countries joint together to form an independent enterprise, it is called as joint venture bank. It can be said as the force between two or more enterprise for the purpose of carrying out specific operation such as industrial or commercial investment, production or trade. In Nepal, the foreign commercial banks have been formed under the company act 1964 and operated under the commercial bank act 1974. All Nepalese Joint Venture banks are operated under the rules, regulations and guidance of Nepal Rastra Bank. Joint venture banking scenario of Nepalese financial sector is not so long. After the establishment of democratically elected government, it introduced liberal and market oriented economic policy which facilitated the establishment of joint venture banks and introduced a new horizon to the financial sector of Nepal.

Nepalese JVBs should take initiation in search of new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time, the bank and financial institutions are offering very low deposit interest rate. In this situation Nepalese JVBs are required to explore new opportunities to make investment if they want to survive in the competitive market. Since commercial banks can inspire entrepreneurship, the banks should also consider national interest and government emphasis for the economic growth of the country by the development of industry trade and business and to fulfill the objective of profit making.

2.1.2 Role of the Joint Venture Banks in Nepal

Joint venture banks pose a serious challenge to the existence of the inefficient native banks. But the same challenge can be taken by the domestic banks as an opportunity to modernize themselves and sharpen their competitive zealous. At present the financial institution of the country has been effortful to mobilize resources on one hand whereas small traders and entrepreneurs are facing difficulties to receive loans

on the other. The only solution of this problem is to encourage competition in the banking sector. Therefore, the policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted. This will promote competition among banks whereby the clients will get improved facilities. In addition, the share of these new banks will also be sold to the general public and while distributing the share, it will be ensured that the ownership is spread out to the maximum extent possible

In such manner, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade and introduce new techniques and technologies. The various roles played by the joint venture banks in Nepal can be classified into three categories

- **Introducing advanced Banking Techniques**

The joint venture banks in Nepal have been largely responsible for the introduction of new banking techniques such as computerization, hypothecation, consortium finance, fee based activities and syndicating under the foreign exchange transactions by importers and exporters, merchant banking, inter-banking market for the money and securities, arranging foreign currency loans etc.

- **Bringing healthy competition**

The introduction of joint venture banks also brings the benefit of healthy competition of which the main beneficiaries are the bank customers and the economy. The increase in competition also forces the existing banks to improve their qualities of services by simplifying procedures providing training and motivation to their own staff to respond to the new challenge.

- **Introducing foreign investment in Nepal**

When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local rules, regulations and practices though there are many systems actually operating during the implementation period. In this context, the joint venture banks help the multinational companies to build up their confidence for investment by providing necessary information and financial support.

Hence, the joint venture banks play the pivotal role for the economic development of country by providing various new financial services to modernize traditional Nepalese banking system.

2.1.3 Functions of Banks

The commercial banks in every nation of the world have key role in the pursuit of attaining the goal of rapid economic development. Commercial banks are the heart of financial sector, which occupy important place in the framework of the economy. They hold deposits of the people, government and business units. They make funds available through their lending and investing activities to borrowers like individual, business and government sector. Therefore, as they provide capital for the development of the industry, trade, business and services they contribute large portion on the economic growth of the nation commercial banks make sound investment in various sectors of the economy, which boost the quality of investment as well as achieves, its own objectives of profit maximization. Thus, well-formulated and sound investment policies- coordinated and planned efforts accelerate the pace of economic growth.

Commercial banking as we have seen grew but of the need for a safe place of deposit when the people of London entrusted their savings to the goldsmiths. It did not take much time for them to realize that the business could be made profitable by re-lending what was receives, provided it could be returned before it was required. Gradually, they learnt that the daily payments were more than counter balanced by the daily receipts and hence there was no necessity of this stipulation. It is obvious that borrowing and lending are two leading functions of banking business. There are a few other functions as well which are now performed by these banks. They include the following:

1. Receiving Deposits

Deposits are received under different heads of accounts, the most important of which is the current account, others being the fixed deposit account, the saving bank account, the home safe account, etc. The first deposits received were, however, under fixed deposit account but "the goldsmith found by experience that they could take deposits withdrawal not at a fixed future date, if such deposits were on a large scale, a

sufficient proportion of them would always be left untouched for a certain period to enable the holder to lend up to something like that proportion. These have become the foundation of the 'current account' on which the depositor can draw at his will”.

2. Lending Money

The second major function of a commercial bank is to lending of money, which it receives by way of deposits. Direct loans and advances are given to all types of persons against the personal security of the borrowers or against the security of movable and immovable properties. Loans are granted by banks in four forms i.e. overdrafts, cash credit, direct loans and discounting bills of exchange.

3. Agency Functions

Bankers also act as agents of their customers in various ways. They collect and pay their cheques, bills, promissory notes, coupons, dividend warrants, subscriptions, rents, income tax, insurance premium and other periodical receipts and payments. They purchase and sell on their behalf shares, stocks, debentures and bonds; etc, on the stock exchanges, and other valuables in other markets. They also act as administrators, trustees, executors and attorneys.

4. Miscellaneous Functions

Under miscellaneous functions may be included a number of functions performed by the bankers.

- They receive their customers' valuables ornaments and jewels, documents and deeds, etc. for safe custody and also act as their referee.
- They also make confidential enquiries about the creditworthiness of a prospective customer to enable their customers to enter into important business dealings with them.
- They issue letters of credit of various kinds and bank drafts to their customers for the transfer of money from one place to another. (*Van Horne; 2002:134*)

2.1.4 Concept of Investment

The development of a country is always measured by its economic indices. Therefore, every country has given emphasis on enlistment of its economy. The banks

are such types of institutions, which deal with money and substitute for money. They deal with deposit, credit and credit instruments. Good circulation of credit is very much important for financial institutions and banks. Unsteady and unevenly flow of credit harms the economy and the profitability of the commercial banks. Thus to collect fund and utilize it in good investments is the prime objective of commercial banks. Diverse and safe investment of fund is the question of stability and existence of the bank. Nowadays, the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Generally, investment means to flow cash in different sector with profit motive. In a broad sense, however, investment means to sacrifice current rupee in the present and certain for the future purpose rupees, which comes later and is uncertain. "A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and bank on the other hand, Moreover risk in banking sectors trends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal manipulation of loan misguided lending policy or unexpected economic downturn. So the bank investment policy must be such that it is sound & prudent in order to protect public funds." (*Baidya, 2001:44*)

"A banker seeks optimum combination of earning liquidity and safety, while formulating investment policy." Emphasizing the importance of investment policy puts the importance of investment policy in this way, "Lending is essence of commercial banking, and consequently the formulation and the implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceives lending function effectively and minimize the risk inherent in any extension of credit". He further adds, the formulation of sound lending policies for all bank should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing interest rate. (*Gilbert; 1967:46*)

"Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with managing an investor's wealth, which is the sum of current income and present value of all future incomes".
(Gupta; 1999:92)

There are basically three concepts of investment.

- **Economic investment that is an economist's definition of investment,**
- **Investment in a more general or extended sense, which is used by 'the man on the street', and**
- **The sense in which we are going to be very much interested namely financial investment. (Sharma; 2001:22)**

Banks are those institutions which accept deposit from the public and in turn provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is very risky job. Ad hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence, sound investment policy is another secret of a successful bank.

"Investment has many factors. It may involve putting money into bond treasury bills, or notes or common stocks, or paintings of real estate, or mortgage or oil ventures, or cattle or the theater. It may involve specially in bull markets or selling short in bear markets. It may involve options; straddles, rights, warrants, convertibles, margin, gold, silver, mutual funds, money market funds, index funds and result in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the table or lucky, the rewards may be substantial. For the uniformed results can be disastrous". (Mathur; 1979:19)

"Investment in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value". In the view of Sharpe and Gordon, the investment is the venture that the return is uncertain. (Sharpe and Gordon, 1999:5) Therefore, they have presented their view in the books that bank should look for the safe and less risky investment.

"In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flows are more important than accounting profit. It may also be pointed out that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholder's fund maximization. Investments will add to the shareholder's wealth if it yields benefit in excess on the minimum benefit as per the opportunity cost of capital". (*Pandey, 1999:407*)

"The investment policies of bank are conditioned to great extent by the national policy framework; every banker has to apply his own judgment for arriving at a credit decision, keeping of course his banker's credit policy also in mind". (*S.P. Singh and S. Singh, 1983:5*) As per the above definition, government and central bank have to make a sound policy about the investment policies of commercial banks.

They further state, "The field of investment is more challenging as it offers relatively greater scope to bank or for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly, during recent years, the credit function has become more complex". "Portfolio behavior of commercial bank in Nepal" holds that "The commercial banks fulfill the credit needs of various sectors and the lending policy of commercial bank is based on profit maximizing of the institution as well as the economic enhancement of country". (*pandey; 1999:42*)

The investment objectives are to increase systematically the individual wealth, defined as assets minus liabilities. The higher the level of desired wealth the higher must be received. An investor seeking higher return must be willing to face higher level of risk. (*Wolf and Pant; 1999: 13*)

A bank must strike a balance sheet between liquidity, profitability and safety. "The secret of successful bank is to distribute resource between the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly realizable) to meet every claim and at the same time,

enough income for the bank to pay its way and earn profits for its shareholders".
(*Shrestha; 1995:24*)

From the above definitions and views of various authors it is clear that an investment means to trade, a known rupee amount today for some expected future stream of payments or benefits. That will exceed the current outlay by an amount that will compensate the investor for the time the fund are committed for the expected change in prices during the period of uncertainty involve in expected future cash flows. Thus, investment is the most important function of commercial banks. Therefore, a bank has to be very cautious while investing funds in various sectors. The success of a bank heavily depends upon the proper management of it's invest able funds.

Investment management of bank is guided by the investment policy adopted by the bank. Investment policies can be varied from bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk. Therefore, that an investment word is attached to economics risk and return theory of future result. (*Frank & Reilly, 1986:92*)

2.1.5 Investment Process

Every investment is not risk free so the investment must be made in such a way so that the risk is diversified. According to this book the investment can be made on securities such as treasury bins long term bond common stocks. The focuses of supply and demand inter act to determine a security market price. A security market is a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. The investment decision has gone through the following process:

a. Set Investment Process

Setting the investment policy involves determine the investors objective and amount of wealth tax consideration etc because there is a positive relationship between risk and return for deniable investment.

b. Portfolio Construction

Portfolio construction involves identifying those specific assets in which to invest and what proportion the investors wealth portfolio construction involves the diversification which minimizes the risk.

c. Portfolio Revision

The revision of portfolio is done from time to time. Due to changing partner of risk the portfolio revision are done to minimize the risk.

d. Security Analysis

Security analysis involves examines the number of securities. The purpose of analysis is to check whether the securities are missing priced. Technical analysis, the analysis conducted on the basis of past history to predict future trend and fundamental analysis that calculates the intrinsic values of share are conducted. Fundamental analysis, tries to identify the real or true value of financial assets.

e. Portfolio Performance Evaluation

It determines performance of portfolio periodically regarding the return earned and risk experienced by the investor. The performance should be evaluated not only in the terms if the returns but also the risks experienced. To evaluate the performance appropriate measures and standards are needed. (*Sharpe, Alexander & Bailey, 1999:11*)

2.1.6 Principles of Sound Investment Policy of Banks

The banks are inspired with the goal of earning profit. There are many reasons for having profit as their goal. A bank is like a legal person where shareholders are the owners of the bank, the board of directors is the agent of the bank that operates the bank. There are many employees who were appointed to run the banks and to run the banks, it needs a great amount of expenses, whether it is direct or indirect, there is continuous expense in the bank. The main aim of any person or institution to invest the money in the bank is to earn more profit only. There is only one bank i.e. central bank which is established without the aim of gaining profits. Other banks are inspired with the objective of earning profit and helping the economic development and finally to take the social responsibility. They should have the ability to use the policy of

banking investment and to implement it much more carefully otherwise a bank may be unsuccessful in its goal. (*Bhandari, 2003:126*)

Without investment, a bank cannot gain profit. The bank cannot be successful until it gains profit. Therefore after the establishments of bank it collects much deposit, get the deposits from the current, saving and fixed deposit account. In this way, the bank apart from the amount deposited from such accounts, collects the capital by selling its shares. The bank can take loans thus; a great capital fund is formed in the bank from different sources. It is not better to keep such capital fund inactive. The bank should be able to clear the policy of its investment by making a deep study on the subject that which sector would be the more trust worthy and dependable to invest the amount collected in the bank. If the bank applies following investment policies or principles it can be successful in its goal. Hence these principles or policies or theories are as follows:

- **Principle of Liquidity**

Liquidity means the whole stock in the economy. In the case of Nepal the money in use, the money in the accounts of current, saving and fixed period and the money in margin account refer to liquidity. The liquid property means cash stock of the commercial banks the amount of short term, current account and short-term government and business security and the Treasury bill.

A bank should not forget the principle of liquidity while it is following its investment policy. The commercial banks are considered to be as financial mediators. The commercial banks have liability to the deposits and they immediately should give it in the time when the depositors asked. For this purpose, the bank should keep adequate liquid funds. And also they should gain profit by utilizing the deposit as a loan and advances. If the bank can't return the deposits at the time of demand it may lose the customers and their trust. If adequate liquid fund is kept, they can return the deposits at will of the depositors but such bank can't run for a long time. In same way, if they invest the whole deposit loan and advances, they can't give it at the time of demand by the depositors, so, the commercial bank try to move the liquidity and profit together. It is a great challenge for the managers of the bank.

The commercial banks should attract deposits because a deposit is called raw materials of banking, without which bank can't run. It is important thing in which sectors the amount of each deposit is to be invested. The interest is not given for the amount of current account. But as it has to give payment immediately, plenty of liquidity is necessary for it. From the viewpoint of property, loan and advances are more income generating sectors but they are less liquid able. The amount would not be recovered in the time of want. Similarly keeping more money in the bank is very more liquid able, but does not generate income to the bank. The quantity of liquidity is less for investment so maintenance of co-ordination between the property and the liquidity by keeping some parts of its own property as a liquid property to provide loan and to invest it is the success of the commercial banks. The central bank pays attention to this reality to give direction on liquidity to the commercial banks. (*Bhandari, 2003:127*)

- **Principle of Profitability**

The objective of the commercial banks is to earn profit. The bank should follow the objective by focusing it on the sectors in which it can earn much profit. The bank should not keep its means and materials inactive; it should keep on investing the means and materials in appropriate and safe area. The banks can gain much profit from the safe and long-term investment. But there is less liquidity in such investment. It may loss the investment in the sector where profit is not gained. Where much risk is there, is much profit. But sometimes it may create a situation where the bank should face the great economic loss, by loss of the investment in such a risky sector. So the profit and liquidity are two opposite principles. If the bank pays its attention only for profit, the liquidity becomes less, if it pays its attention on the liquidity, it can't be a long-term investment and the bank doesn't get profit. So it should maintain equality in it. The profit of the bank is the interest rate and the bank charge. So, the bank should always think to apply an appropriate investment policy in such sector from which can earn much. (*Bhandari, 2003:128*)

- **Principle of Safety**

A bank should pay special emphasis on safety. If the invested area is unsafe, it isn't good omen for the bank. The bank should pay much emphasis on the principle of

safety, to follow the investment policy. There will be no doubt of loss whether it is great or little, if the bank has not invested in a safe sector. The bank should think it with much sensibility. To invest in an unsafe sector with the hope of gaining much is to accept the security of low quality. To invest large loan against less securities by receiving commission, to invest in new places without care, observation and to flow the long-term loan including these all-various reasons will make unsafe of the bank's investment. They should be avoided as much as can be. There will be no loss to the bank, if it invests in profitable sector. So, the bank should seriously study whether there is a possibility of investment or not. It should invest in a safe sector. If the property taken as the securities are ruined, securities is low in standard or low valued and if there is no possibility of sale of the security, the bank suffers from loss. The bank should follow the principle of safety, should flow the short-term loan and invest in profitable sector. In such conditions there will be no possibility of loss. The secured sectors mean the securities of the inland and foreign, company's shares debentures and government bond etc. (*Bhandari, 2003:128*)

- **Principle of Diversification**

The principle of diversification means, the banking policy of investing the money in the various sectors. The bank should not follow the policy of investment only in one or two sectors. If it follows such policy, certainly its investment policy will not be successful. The bank by studying and analyzing the different sectors where it is possible to earn more from little investment should extend its investment. If it invests in many sectors, it becomes successful to keep it in balance. There will be less profit from investment of some sector and there will be maximum profit from some another sector. There may be loss too in some sector. On the whole a bank should be able to itself a competent. If it happens so, the banking transaction does not go up and down. It can run the bank comfortably and smoothly. In the case of earning profit, the bank should follow the policy of investing various fields. So, there is a statement “a bank should not lay all its egg in the same basket.” By following this principle, on the basis of gold, silver, diamond, development bond, shares of company, debentures, goods, imports and export bills and other appropriate securities, the banks have moved ahead of their investment policy. The bank always gets success in their working capacity

from such investment. And the bank becomes successful in its goal. (*Bhandari, 2003:129*)

- **Principle of Marketability**

A bank should adopt the principle of marketability in investment policy. In certain way, the bank moves its investment or flows loan against security. To invest the money, the bank should follow the policy of taking the security of high quality as far as possible. The market of Nepal is small. In such a small market in order to livingness to its banking transaction, a bank should flow its loan by taking the first class securities. The bank should keep in mind the main principle of marketability while it makes investment. Are the goods taken as securities saleable in the market or not? Can the loan be recovered by selling it in the market or not? The bank should adopt the investment policy by paying the attention to the different aspects, it should study the market evaluate of the goods which are taken as security. The bank should do such thing, which would help to earn the profit and make the investment policy successful. The bank should not investment money by taking the securities of goods, which are not saleable in the market and though they are sold but not fetch the reasonable price, and there is no value of such things. The bank should take as far as possible such goods which keeps may be safely and freshly in the market and the loan will be recovered like, gold, silver, diamond, company's shares certificates, debentures, development bond and other similar types of securities of immovable property like house, land can't be sold in time. So if the bank provides loan by taking reasonable goods as security it can be sold in the market easily and the bank can be saved from becoming insecure. (*Bhandari, 2003:129*)

2.1.7 Features of a good investment selection

In choosing specific investment, investors" will need to define ideas regarding a number of features that their portfolios should possess. These features should be consistent with the investors" general objectives and, in addition, should afford them all the incidental conveniences and advantages which are possible in their circumstances. The following are the suggested features as the ingredients from which many successful investors compound their selection policies. (*Bhalla, 1983:2*)

- **Adequate Liquidity and Collateral Value**

An investment is a liquid asset if it can be converted into cash without delay at full market value in any quantity. For an investment to be liquid it must be I) reversible or II) marketable. The difference between reversible and marketability is that reversibility is the process whereby the transaction is reversed or terminated while marketability involves the sale of the investment in the market for cash. To meet emergencies, every investor must have a sound portfolio to be sure for the additional funds, which may be needed for the business opportunities. Whether money is rising is to be done by sale or by borrowing it will be easier if the portfolio contains a planned proportion of higher-grade and readily saleable investment.

- **Stability of Income**

Stability of income must be looked at different ways just as was security of principle. An investor must consider stability of monetary income and stability of the purchasing power of income. However, emphasis on income stability may not always be consistent with other investment principles. If the income stability is stressed, capital growth and diversification will be limited.

- **Capital Growth**

Capital appreciation has today become an important principle. Recognizing the connection between corporation and industry growth and very large capital appreciation, investors and their advisors constantly are seeking “growth stock”. It is exceedingly difficult to make successful choice. The ideal “growth stock” is the right issue in the right industry, bought at the right time.

- **Tax Status**

To plan an investment program without regarding to one's tax status may be costly to the investor. There are really two problems involved here that, one concerned with the burden of income taxes upon that income. When investors' incomes are small, they are anxious to have maximum cash returns on their hand, investors who are not presses for cash income often find that income taxes deplete certain types of investment incomes less than others. Thus, it affects their choice.

- **Purchasing Power Stability**

Since an investment nearly always involves the commitment of current funds with the objective of the investor should consider receiving greater amounts of future funds, the purchasing power of the future funds. For maintaining purchasing power stability, investors should carefully study I) the degree of price level inflation they accept, II) the possibility of gain and loss in the investment available to them and III) the limitations imposed by personal and family considerations.

- **Conceivability**

To be safe from social disorders, government confiscation or unacceptable levels of taxation, property must be conceivable and level no record of income received from its use or sale. Gold and precious stones have long been estimated for purposes because they combine high value with bulk and are readily transferable. (*American Institute of Banking, 1972:149*)

2.1.8 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 frequently used in this study, which are given below.

- **Deposits**

For a commercial bank, deposit is the most important source of the liquidity. For a 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 of bank 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:

a) Current deposits: Current deposits are also known as demand deposits. The demand deposit in which an amount is paid immediately at the time of any account holder's is called demand deposit. Through the bank can't gain profit by investing in

new sector after taking from the customer, this facility is given to the customer. Therefore, the bank does not give interest on this account.

b) Saving deposits: In saving deposits, there are restrictions on the maximum amount that can be deposited and also withdrawals from the account. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositors against their deposit.

c) Fixed deposits: Fixed deposit is the one, which a customer is required to keep a fixed amount with the bank of specific periods, generally by those who do not need money for the stipulated period. They are not allowed to withdraw the amount before expiry of the period. The rate of interest is higher than other deposits. The bank pays a higher interest as such on deposits.

- **Loans & Advances**

Loan, advances and overdrafts 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 banks are much cheaper than those borrowed from unorganized moneylenders. The demand for loans has excessively increased due to cheaper interest rates. Furthermore, an increase in economic and business activities always increases the demand for funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions 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 the staff of the bank for house loan, vehicle loan, personal loan and

others, in mobilization of commercial banks fund, loan, advances and overdraft have occupied a large portion.

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

Though a commercial bank can earn some interest and dividend from the investment on government securities, shares 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 shares for several reasons. Some of them are given as:

- i) Space so that the inflow of cash coincides with expected withdrawals by depositors or large loan demands of its customers.
- ii) It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.
- iii) It may also be forced to invest because the demand for loans has decreased or it 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 shrinkage in value.

- **Investment on other Company's Shares and Debentures**

Due to excess funds and least opportunity to invest these 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 bank's NIDC and other development bank's shares.

2.2 Review of articles

Donohue and Hendershott, (2004), in their article, "*Fund Flows and Commercial Real Estate Investment: Evidence from the Commercial Mortgage Market*", have stated that the Federal Reserve's flow of funds accounts is a marvelous closed loop

system with incredible detail on financial flows. For each sector, total sources and uses of funds are equal (up to a discrepancy item), and for each market, issues and purchases of the security are equal. Thus all investment is financed and all securities issued are purchased. This study has analyzed commercial mortgage sectoral issues and purchases to determine if there were periods where unusual sectoral purchases seemed to generate unusual sectoral issues (i.e., where purchases were driving issues rather than the other way around). Two periods were noted. The first period is when thrifts were encouraged to grow out of their negative-net-worth problem in the early 1980s and were given authority to invest in commercial mortgages. During 1983–1985, savings institutions added to commercial mortgage holdings at the annual rate of Rs.16 billion versus a modest Rs.4 billion a year during the previous six years.

The second period is 1991–1994, when higher risk-based capital requirements were imposed on commercial mortgage holdings of banks and life insurance company losses on junk bonds and commercial mortgages induced them to shift out of risky corporate and commercial real estate debt. Seemingly in response, non corporate businesses paid down commercial mortgage debt at a faster rate than other debt, in spite of the fact that the latter had grown much faster the former in earlier years, and nonfinancial corporations liquidated substantial commercial mortgage debt while continued to issue corporate bonds at the rate of earlier years.

Mieno, (2006), in his article, “*Fund Mobilization and Investment Behavior in Thai Manufacturing Firms in the Early 1990s*”, has examined the capital structure and investment behavior of firms in Thailand in the early 1990s. Five important results are obtained. First, there are serious information problems between manufacturing firms and financial institutions. Second, the debt ratio depends upon whether firms are listed on the securities exchange. The debt ratios of listed firms are higher than those of non-listed firms. Third, the low debt ratios of listed firms are simply a reflection of increased capital accounts generated by initial public offerings in the form of stock premiums or capital surpluses.

Fourth, in contrast to the a priori expectation, firms in the financial conglomerates groups depend more on informal finance and less on bank loans, particularly on short-term loans. They are also relatively inactive investors. Lastly, a clear relationship

between capital structure and investment is found for bank loans and long-term loans, but not for the debt ratio. Bank loans, particularly long-term loans, weaken credit restrictions, and lower capital costs promote investment.

Sharma, (2008), in his article "*Banking the future on competition*" has highlighted that majority of commercial banks are being established and have operation in urban areas only. They have shown no interest to open branches in rural areas. The branches of NBL and RBB are only running in those sectors. The commercial banks are charging higher interest rate on lending, they are offered maximum tax concession, they do not properly analyze the credit system.

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

Lu, (2009), in his article, "*What is the Wind Behind this Sail? Can Fund Managers Successfully Time Their Investment Styles?*" stated that over the ten-year period of this study (June 1992 to July 2002), the average mutual fund manager demonstrates little ability to time the market in aggregate. In fact, using empirical factor timing model, only 8.3 percent of my funds had significant positive alphas. There is even some weak evidence that supports the assertion that mutual fund managers attempt to implement market timing strategies at the expense of poor stock selection performance.

Most funds are restricted from taking substantial positions in small-cap stocks and there are relatively higher transaction costs associated with size (big cap/small cap) and momentum (winner/loser) timing strategies when compared to book-to-market (value/growth) timing strategies. There may also be a behavioral explanation which is related to the trading behavior and preferences of fund managers. Fund managers prefer big-cap stocks to small-cap stocks as safer investments. Also, they tend to sell winners too soon and to hold on to losers too long.

Cumming, Eddine & Schwienbacher, (2010), in their article, “*An Empirical Analysis of Fund Regulation and Scope of Distribution of European Investment Funds*”, have stated that consistent with limitations to the UCITS III regulations that hampered international distributions as implied by the changes proposed in 2009 with UCITS IV, strong evidence that UCITS III promoted international distributions for larger funds was found. Further, the nontrivial costs of international notification under UCITS III imply that smaller countries would have disproportionately more interest in notification internationally.

Promoters that are commercial banks do not seem to set up funds with a broader scope of distribution. However, non-European promoters have funds with greater scope, irrespective of the measure of scope of distribution used. Non-European promoters included in analysis originate by far from the US. Further there has been an increase in the number of fund promoters that distribute UCITS funds outside the European Union, notably in Asia.

Pradhan, (2010), in his article “*Deposit mobilization its problem and prospects*” points out that deposit is the lifeblood of every financial institution. The latest financial/accounting figures of most bank and financial companies produce a strong feeling that serious review must be made with regards to problem and prospect of deposit sectors. Leaving a few joint venture banks, other organization relies heavily on the business deposit and credit disbursement. Mr. Pradhan has highlighted the following problems of deposit mobilization in the Nepalese context:

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

For proper deposit mobilization, he has recommended the following:

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

2.3 Review of Previous Thesis

There are not many research papers or articles published on the investment policy of commercial banks in Nepal. In the context of Nepal, there is a need of research of investments in commercial banks and financial institutions as their routine work. And some of the author who did research on relevant topic (investment policy) is given below:

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

The objectives of the study were as follows:

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

The major findings of the study were as follows:

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

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

Thapa, (2003), has conducted a thesis research on "*A comparative study on investment policy of Nepal Bangladesh Bank and other JVB's (NIBL Bank Limited and Nepal Grindlays Bank Limited)*". The basic objectives of this study were:

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

The major findings of the study were as follows:

- NBBL has good deposit collection, enough liquidity, it has sanctioned enough loan and advances, but it has made negligible amount of investment in government securities.
- NBBL is in a weak position regarding its on balance as well as off balance sheet activities.
- Profitability position of NBBL is comparatively worse than that the NIBL & BOKL.
- The credit risk ratio, interest risk ratio, capital risk ratio of NBBL is higher than BOKL & NIBL. It is exposed to more risk.
- NBBL has been successful in increasing its sources of funds and its mobilization. The growth ratio of total investment of NBBL is comparatively worse than the other two JVB's.
- There is significant relationship between deposit and loan and advance, outside assets and net profit of NBBL but there is no significant relationship between deposit and investment of NBBL.

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

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

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

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

Regmi, (2006), conducted "*A Comparative Study on Investment Policy of Everest Bank and Himalayan Bank Limited*" with the objectives as given below:

- To find out the relationship between total investments, deposits, loans and advances, net profit and assets and compare them.
- To evaluate the liquidity, asset management, efficiency, profitability and risk portion of EBL and HBL.
- To analyze the deposit utilization trend and its projection for five years of HBL and EBL.
- To provide package of a workable suggestions and possible guidelines to improve investment policies.

The study was carried out the basis of secondary data. The research findings of the study were:

- The liquidity position of EBL was comparatively better than HBL.
- EBL had the highest cash and bank balance to total deposit ratio, cash and bank balance to current assets ratio than that of HBL.
- Both EBL and HBL had almost same pattern of investment on government securities, but fluctuating ratios showed the unstable policy of investment.
- EBL has higher loan and advances to current assets ratio and successful in deposit collection as well.
- The assets management ratios of both banks are satisfactory.
- Both bank EBL and HBL had provided its most portion of deposit as loan and advances. Moreover, EBL had invested its more portions as loan and advances, in case of investment in other sectors, HBL had adopted diversified investment policy.
- EBL invest its working fund in government securities and other companies share and debentures than that of HBL, So HBL is less effective in comparison to EBL.
- In profitability analysis, HBL had maintained high profit margin regarding profitability position.
- HBL was more successful to generate income through loan and advances and operating income and it has earned more from total outside assets and total working fund.
- From the study, it was concluded that profitability of HBL was better than that of EBL.
- From the risk point of view, HBL had borne lower liquidity risk and credit risk in comparison to EBL regarding various aspects of banking activities. It could be said that HBL had followed a stable liquidity policy justified by lower coefficient of variation

Shrestha, (2007), conducted a study on "*A Comparative Analysis on investment performance of commercial banks in Nepal*" with the following objectives:

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

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

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

- The coefficient of correlation analysis between different variables of NABIL, NIBL and HBL revealed that NABIL was weaker regarding mobilization of deposits as loans and advances and NIBL was performing extremely well regarding earning profits from outside assets.

Dhakal, (2008), conducted a study on "*Investment Policy of Commercial Banks in Nepal*" with the objectives that follow:

To find out the relationships between total investment, loan and advances, deposit, net profit and outside assets

- To identify the investment priority sectors of sampled commercial banks.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.
- To provide suggestions and possible guidelines to improve investment policy and its problems.

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

- The liquidity position of Everest Bank Ltd. (EBL) was comparatively better than that of Nabil Bank Ltd. (NABIL) and Bank of Kathmandu Ltd. (BOK).
- All the three banks had met the normal standard current asset ratio to meet the short-term obligations of their customers.
- EBL had invested the most in Government Securities, followed by BOK and NABIL.
- BOK had mobilized a huge sum its funds to earn the profit.
- From the analysis of assets management ratio, EBL was in better position than NABIL and BOK.
- The loans and advances to total deposit ratio, loan and advances to total working fund ratio of EBL lied in between those of NABIL and BOK.
- Overall analysis of profitability ratios showed that EBL was on an average profitable in comparison to other bank i.e. NABIL and BOK..
- The trend of the total investment, total deposit, loan and advances and net profit of EBL showed better position than that of NABIL and BOK.

Yadav, (2009), conducted a study on “*A Study on Comparative Financial Performance of Joint Venture banks in Nepal*”. The objectives of the study are as follows:

- To find out comparative and competitive position of two JVBs banks.
- To rank the Nabil and NBBL in terms of financial operational profitability, productivity position.
- To show the trend of total deposits, investments, total income, total expenses and total net income.
- Measuring financial risk of Nabil and NBBL.
- To Provide package of recommendation and possible guidelines to improve banking business based on the findings of the study.

The research findings of the study are as follows:

- Capital structure ratios of both banks are low. Debt portion is more used in NBBL but profitability position is lower than Nabil.
- Both banks should be developed separately research and training department so they would be able to study different aspect of management and supply practical suggestion to develop as an innovative approach in bank management and bank operation.
- The trend of total deposits, total investment, total expenses, total net income, interest expenses and interest earning of NBBL is exceptionally higher than Nabil.
- NBBL is more risky bank. Researchers recommended that portfolio situation should be carefully examined from time to time. The varied rate of return should be verified in such a way that balances the conflicting goal of maximum yield and minimum risk. It should be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and its customers. Comparatively Nabil's profitability position is better than NBBL.

Thapa, (2010), has conducted a research entitled "*Investment Policy of Commercial Banks in Nepal*". The objectives of the study are as follows:

- To evaluate liquidity, activity and profitability ratios of RBB in comparison with NBL and industry average.

- To analyze the relationship of loan and total investments with total deposit and net profit of RBB and to compare it with that of NBL and industry average.
- To use trend analysis to compare loan and advance, total investment, total deposit and net profit of RBB and compare the same with other two.
- To examine the loan loss provision of RBB and NBL.
- To provide suggestion and recommendation on the basis of findings.

The major findings of the study are as follows:

- RBB ha good deposit collecting, enough loan and advance and investment in government securities.
- It has comparatively better liquidity position than NBL.
- RBB and advance is in comparatively better position regarding issue of loan and advance but it does not have good position in regarding investment in shares and debentures of other companies, off balance sheet operation. Loan loss ratio shows low quality of loan and advance.
- The profitability position of RBB and advance is worse. RBB and advance needs to take immediate steps to increase its profitability.
- There is significant relationship between deposit and loan and advance. There is insignificant relationship between deposit and investment, and outside assets and net profit.

Shrestha, (2010), has conducted a thesis research entitled "*Investment Portfolio Analysis of JVB's*". The objectives of the study are as follows:

- To analyze the risk and return ratios of commercial banks.
- To evaluate the financial performance of JVBs.
- To provide suggestions package based on the analysis of data.
- To study existing investment policies taken by NIBL in various sectors.
- To study portfolio structure of NIBL in investment as compared to other JVB's.
- Preference given by NIBL for investment between, Loan Investment. Investment in real fixed assets, Investment in financial assets.

The main findings of the study are as follows:

- BOKL has the highest return on share holders fund and total assets. It has also been successful in mobilizing its deposits as investments. NIBL and EBL have invested high amounts of deposits as loan and advances in comparison to BOKL, NIBL and HBL.
- Among the JVB's, looking at the investment portfolio, EBL has investment highest amount of funds in government securities, NBB has invested highest amount of funds on shares and debentures and has invested highest amount of funds on NRB bonds in comparison to other JVB's.
- BOKL has the highest EPS and EBL has the lowest EPS among the JVB's.

Tapol, (2011), conducted a study on “*Investment Practice of Commercial Banks in Nepal*”. The objectives of the study are as follows:

- To measure the financial performance.
- To find out comparative and competitive position of two JVBs banks of Nepal.
- Measuring risk of NABIL & NIBL bank.
- To find out the relationship between different variables like investment, deposits loan and advances, net profit & compare them between NABIL & NIBL.
- To recommended measure for the improvement of the financial performance and efficiency on the basis of the conclusion drawn from the research.

The main findings of the study are as follows:

- The mean ratio of return on loan and advances of NIBL is lower than that of NABIL. On the other hand, NIBL's variability between ratios is lower than that of NABIL.
- The mean ratio of credit risk ratio of NIBL is higher than that of NABIL and NIBL's ratios are more homogenous than that of NABIL.
- From the analysis of growth ratio, NABIL has lower growth rate on total deposits, loan & advances, total investment and net profit than NIBL. Therefore NIBL has successfully collected and utilized fund amount of its customer than NABIL.

- Banks are recommended to activate foreign technology and investment in Nepal by means of their wide international banking sector and make Nepalese personnel capable of operating these banks as efficiently as international banks.
- Complaint boxes should be kept in each and every branch and bank personnel try to eliminate those deficits which are in the complaint box in order to maintain better relation with its customers.

2.4 Research Gap

There is a certain gap between the present research and past research. Previous several researches are done in this topic called “Investment portfolio Analysis”. The information of this research is also based on secondary data, but many effective tools and techniques are used to get the desired result as per the objective of this study. To analyze the facts financial tools as well as statistical tools were used to get the desired objective of the study. Financial tools include ratio analysis i.e. liquidity ratio, efficiency ratio, leverage ratio, profitability ratio and growth ratio and the statistical tools include mean, standard deviation, coefficient of variation, coefficient of determination, correlation of coefficient analysis probable error. So far there have been so many studies of Nepalese researchers which can be considered as landmark in the field of investment policy. But many more changes appear in the market in short time period. So it is necessary to carry out a fresh study related to investment pattern of joint venture banks of Nepal. This research will deliver the answer to the recent questions and it will also give the latest information about the current practices of concerned joint venture banks. In this study it is tried to carry out the distinct from the previous studies in terms of sample, size and methodology used.

CHAPTER: III

RESEARCH METHODOLOGY

Research methodology is composed of two words: ‘Research’ and ‘methodology’. Research is the systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing, and interpreting the data with the purpose of finding answer to problem. Thus, the entire process by which we attempt to solve problem is called research, while ‘methodology’ is the research method used to test different statistical tools in order to make a conclusion. A sound and systematic methodology is required to carry out any study, if it is to be worthwhile.

“Research Methodology refers to the various sequential steps to be adopted by a research in studying problems with certain objective in view.” (Kothari; 1989:30) This study is more analytical and empirical. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathering from respective annual reports of concerned banks especially from profit and loss account balance sheet and other publication.

3.1 Research Design

Research design is an essential part for each research work. It is plan structure and strategy investigations conceived to obtain answer to reach questions and to control variances. It is the systematic and objective process of collecting, verifying and evaluating evidence to reach conclusion. It is overall operational pattern of framework of the study that stipulates what information is to be collected from which source by what procedure. Therefore, descriptive design of research is used in this study. (Joshi; 2010:54)

3.2 Nature and Source of Data

The study is mainly based on secondary data. The secondary sources of data collections are balance sheet, profit and loss accounts, and loans and advances respectively, which are obtained from the annual reports and financial statements of the concerned banks. Some supplementary data and information have been collected

from the source like Tribhuvan University Central Library, Shanker Dev Campus Library, Nepal Commerce Campus Library, different journals, magazines, reports and unpublished masters' degree theses. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives of the present study. Formal and informal talks with the concerned authorities of the banks were so helpful to obtain the additional information of the related problem. The data for the study are also collected from record available from the Security Board of Nepal and Annual Reports of the concerned banks. Moreover, various Stock Exchange publications formed and important supplementary source of the data for this project study particularly on investment policy

3.3 Population and Sample

Population covers the whole or total of observation that have been selected for the study. Sample is the part of population which represents population with regards to the study. There are 32 commercial banks functioning all over the country and most of their stocks are actively traded in stock market and 8 joint venture banks are operating in Nepal. In this study, two joint venture banks (NABIL and SCBNL) are taken for research work. These banks are compared as per fund collecting joint venture because data from fiscal year 2006/07 to 2011/12 are analyzed for the fulfillment of the objective.

3.4 Data Presentation and Analysis Techniques

The data presentation and analysis are focal part of the study. A number of financial, statistical and accounting tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data has been done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, Karl Pearson's coefficient of correlation, regression analysis and the technique of least square are adopted in this study. In the same way, some useful financial tools such as ratio analysis and trend analysis have also been used for financial analysis. The data extracted from annual reports, financial statements and other available information are processed and tabulated in various tables and charts under different headings according to their nature.

3.5 Tools for Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. Their ratios, percentages, mean, standard deviations and coefficients of variations are then calculated and presented in the tables. To study the relationship between two or more variables, correlation coefficients are also calculated. Likewise, trend analysis is also used to know the trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

3.5.1 Financial Tools

Financial ratios have been calculated to ascertain the financial condition of the firm. Financial tools have been used to examine the financial strength and weakness of bank. It is the relationship between financial variables contained in the financial statements (i.e., balance sheet, profit and loss account and income statements). There are several financial to spot out the financial strength and weakness of the firm. There are several financial tools, which could be applied in order to analyze the investment policy of commercial banks. The financial tools used in this study are as follows: Liquidity Ratio, Activity Ratio, Leverage Ratio, Profitability Ratio and Growth Ratio.

A. Liquidity Ratio

A liquidity ratio measures the firm's ability of fund, solvency of the firm and ability to pay its obligation when balances are due. It is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. Short-term liquidity involves the relationship between current assets and current liabilities. The current ratio and quick ratio measure the liquidity position of the company. These ratios are calculated to judge the long term as well as short-term financial position of the concerned firm. To measure the bank's solvency position or ability meet its short-term obligation, various liquidity ratios are calculated.

A. 1 Current Ratio

Current ratio shows the short-term solvency and the relationship between current asset and current liabilities. Current ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicates the current short- term solvency position of the bank. The current

ratios are the ratios of total current assets to current liabilities. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety. The higher is the current ratio, the greater is the margin of safety and the larger the amount of current assets in relation to current liabilities, the more the bank's ability to meet its current obligations. Current asset includes cash and bank balance, Money at call of short notice, loan and advances, Investment on government securities and other interest, overdraft, bills purchase and discount, receivable and miscellaneous current assets where as current liabilities includes deposit and other accounts. 2:1 is standard of current ratio is widely acceptable or more is considered as satisfactory. It is not hard and fast assumption that the current ratio must be 2:1. Therefore, many firms below this standard are also seen sound and meeting those obligations efficiently.

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

A. 2 Cash and Bank Balance to Total Deposits Ratio

Cash and bank balance are the liquid current assets of a firm, cash bank balance to total deposits ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed by dividing the amount of cash and balance by the total deposits, such that:

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

Where, total deposits on current account, saving account, fixed account, money at call and other deposits. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

A.3 Cash and Bank Balance to Current Deposit Ratio:

This ratio is computed to disclose the soundness of the company to pay total calls made of current deposits. It can be expressed as:

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

(B) Activity/Efficiency Ratio:

It is known as turnover or efficiency ratio or assets management ratio which measures how efficiently the firm employs the assets. Turnover means how many numbers of times the assets flow through a firm's operations and into sales. Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equals. Various ratios are examined under this heading.

B.1 Credits and Advances to total deposit Ratio:

Commercial banks mobilize the outsider's fund for profit generation purpose. Credits and advances to total deposit ratio shows whether the banks are successful to mobilize the outsider's funds (i.e. total deposits) for the profit generating purpose on the credit and advances or not. Generally, a high ratio reflects higher efficiency to mobilize outsider's fund and vice-versa. The ratio can be calculated by using following formula.

$$\text{Credits and Advances to Total Deposit Ratio} = \frac{\text{Credits and advances}}{\text{Total Deposit Ratio}}$$

B.2 Credits and Advances to Fixed Deposit Ratio:

Fixed deposits are the long-term interest bearing obligations and credits and advances are the major sources of investment to generating purpose. The ratio slightly differs with the former one because it only includes the fixed deposits, where as the former includes all the deposits. The following formula is used to obtain this ratio.

$$\text{Credits and advances to Fixed Deposit Ratio} = \frac{\text{Credits and advances}}{\text{Fixed Deposit Ratio}}$$

B.3 Credit and Advances to Total Assets Ratio:

It measures the ability in mobilizing total assets into credits and advances for profit generating income. A higher ratio is considered as an adequate symbol for effective mobilization of total assets to bank into credits and advances which create opportunity to earn more and more. It is calculated as:

$$\text{Credits and Advances to Total Assets Ratio} = \frac{\text{Credits and advances}}{\text{Total Assets Ratio}}$$

(C) Leverage Ratio:

The use of finance is referred by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which creates financial leverage. These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weakness of the firm. Following ratios are included under leverage ratios.

C.1 Total Investment to Total Deposit Ratio:

Investment is one of the major sources of earning of Profit. This ratio indicates how properly firm deposit have is invested on government securities and shares and debenture of other companies. This ratio is computed by using following formula.

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

Where, total investment includes investment on government securities, investment on debenture and bond, share in subsidiary companies, shares in other companies and other investment

C.2 Investment on Share and Debenture to Total Working Fund Ratio:

Investment on share and Debenture to Total Working Fund Ratio shows the investment of bank on the share and debenture of other companies in terms of total working fund. This ratio can be obtained dividing on share and debenture by total working fund it is calculated as:

Investment on Share and Debenture to Total Working Fund Ratio

$$= \frac{\text{Investment on Share and Debenture}}{\text{Total Working Fund}}$$

Where, total investment includes investment on government securities, investment on debenture and bond, share in subsidiary companies, shares in other companies and other investment

C.3 Investment on Government Securities to total Working Fund Ratio

Investment on Government Securities to total Working Fund Ratio shows how much parts of total investment are there on government securities in percentage. It can be obtained by:

Investment on Government Securities to Total Working Fund Ratio

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

Where, Investment on Government Securities includes investment on Debenture, bonds and Share of other Companies.

(D) Profitability Ratio:

The Profitability ratio is related to profit. Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits are essential.

“Profitability ratios are the indicators of degree of managerial success in achieving firm’s overall goals”. It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

D.1 Return on Credit and Advance Ratio

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

$$\text{Return on Credit and Advance Ratio} = \frac{\text{Net profit}}{\text{Credit and Advance}}$$

D.2 Return on Total Working Fund Ratio:

Return on Total Working Fund Ratio measure the profit earning capacity of the banks by utilizing available resource i.e. total assets. If the bank’s well managed and efficiently utilized its working fun, it will get higher return. Maximizing taxes this in the legal options available will get higher return. It is computed as:

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

D.3 Total Interest Earned to Total Working Fund Ratio:

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

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

D.4 Total Interest paid to Total Working Fund Ratio:

This ratio measure the Percentage of total interest expense against total working fund. A high ratio indicates higher interest expenses on total working fund and vice – versa. This ratio is calculated as:

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

(F) Growth Ratios:

The growth ratio represents how well the commercial banks are maintaining their economic and financial position. The higher ratio represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected banks the following growth ratio are calculated. Growth ratio is directly related to the fund mobilization and investment of those firms.

- Growth ratio of total deposits
- Growth ratio of credit and advances
- Growth ratio of total investment
- Growth ratio of net profit

3.4.2 Statistical Tools

For supporting the study, statistical tools such as regression, dependent and variable Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis and diagrammatic cum pictorial tools have been used under it.

Mean (\bar{X})

The arithmetic mean or average is the sum of total values to the number of observations in the sample. It represents the entire data which lays almost between the two extremes i.e. the largest and the smallest item. For this reason an average is frequently referred to as a measure of central tendency. In this study it is used in data related to dividend of sample banks over five years. It is calculated as:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$ = Sum of total values

N = Number of observation

Standard Deviation (S.D.)

The measurement of the scatterings of the mass of figures in a series about an average is known as dispersion. S.D. is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. In simple term high SD means very less similarity in the values and low SD means high similarity among the values. SD gives the accurate result between the values only if their mean are same. In case of different mean, SD cannot be the accurate result. It is calculated for selected dependent and independent variable specified. It is the positive square root of mean squared deviation from the arithmetic mean and is denoted by and is calculated as follows:

$$\text{Standard Deviation}(\sigma) = \sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

Coefficient of Variation (CV)

Coefficient of Variation measures the relative dispersion and denoted by CV. It is used in such problems where we want to compare the variability of two or more series. The series for which the CV is greater is said to be more variables and conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, that series for which the coefficient of the variation is less is said to be less

variable or more consistent, more uniform, more stable or more homogeneous. It is obtained by dividing by the arithmetic mean to standard deviation. Thus

$$\text{Coefficient of variation (CV)} = \frac{\sigma}{\bar{X}} \times 100 \%$$

Where,

σ = Standard deviation

\bar{X} = Mean

CV reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as C.V. It is used for comparing variability of two distributions.

Correlation coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variable are said to be correlated when the change in the value of one results change in another variable. Correlation is of three types. They are simple, partial and multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non-linear. Here, we study simple correlation only. In simple correlation, the effect of others is not included; rather these are taken as constant considering them to have no serious effect on the dependent variables.

The popular method of statistical tool, Karl Pearson’s co-efficient of correlation has been adopted to measure the significance of the relation between the deposit and the investment, loan and advance of the four Joint Venture Banks. The formula for computing the correlation coefficient(r) using direct method is as follows:

$$\text{Correlation coefficient}(r) = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \times \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

N = Number of pairs of X and Y observed

X = Values of Investment, Loan and Advance

Y = Values of Total Deposit

r = co-efficient of correlation

Coefficient of Determination:

The coefficient of determination is the measure of the degree of linear association or correlation between two or more independent variables. It measures the percentage total variation in dependent variables explained by independent variables. If R^2 has a zero value then, it indicates that there is no correlation which means all the data points in scatter diagram fall exactly on the regression line. If it has the value equal to one then it indicates that there is perfect correlation and as such the regression line is the perfect estimator. But in most of the cases the value of R^2 will lie somewhere between these two extremes of 1 and 0. One should remember that R^2 close to one indicates a strong correlation between two variables and R^2 near to zero means there is little correlation.

Probable Error

The Probable Error (PE) of correlation coefficient is an old measure of testing of reliability of an observed correlation coefficient. The Probable Error of the correlation coefficient is the basis for the interpretation of its value. PE is used in interpretation whether the calculated value of r is significant or not.

- If $r < PE$ then it is insignificant or there is no evidence of correlation.
- If $r > 6PE$ then, it is significant.
- If $PE < r < 6PE$ then, nothing can be concluded.

CHAPTER: IV

DATA PRESENTATION AND ANALYSIS

The previous chapter was mainly emphasized on research methodology that is about to be adopted to carry out the study. This chapter deals with the presentation, analysis and interpretation of data collected by secondary sources in order to fulfill the objective and the collected data from secondary sources have been represented in the suitable formats (i.e. on tables and charts). The financial as well as statistical tools are used for the comparison of financial indicators. Also the correlation analysis of the sample firm is calculated and data are presented in a systematic tabulated form. Certain inferences and interpretation have also been made finally.

4.1 Ratio Analysis:

4.1.1 Liquidity Ratios

These measure a firm's ability to satisfy its short-term commitments out of current or liquid assets. These ratios focus on current assets and liabilities and are used to ascertain the short-term solvency position of a firm.

4.1.1.1 Current Ratio

The calculation of current ratio is based on a simple comparison between current assets and current liabilities. This is the broad measure of liquidity of the bank. The standard of current ratio for banking companies is 2:1, which means the bank has to maintain total currents double of its total current liabilities.

Where, current assets consist of cash and bank balance, money at call on short-term notice, loans and advances, investment in Government Securities and other interest receivable and other miscellaneous current assets. Current liabilities, on the other hand, consist of deposits, loan and advances, bills payable, tax payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

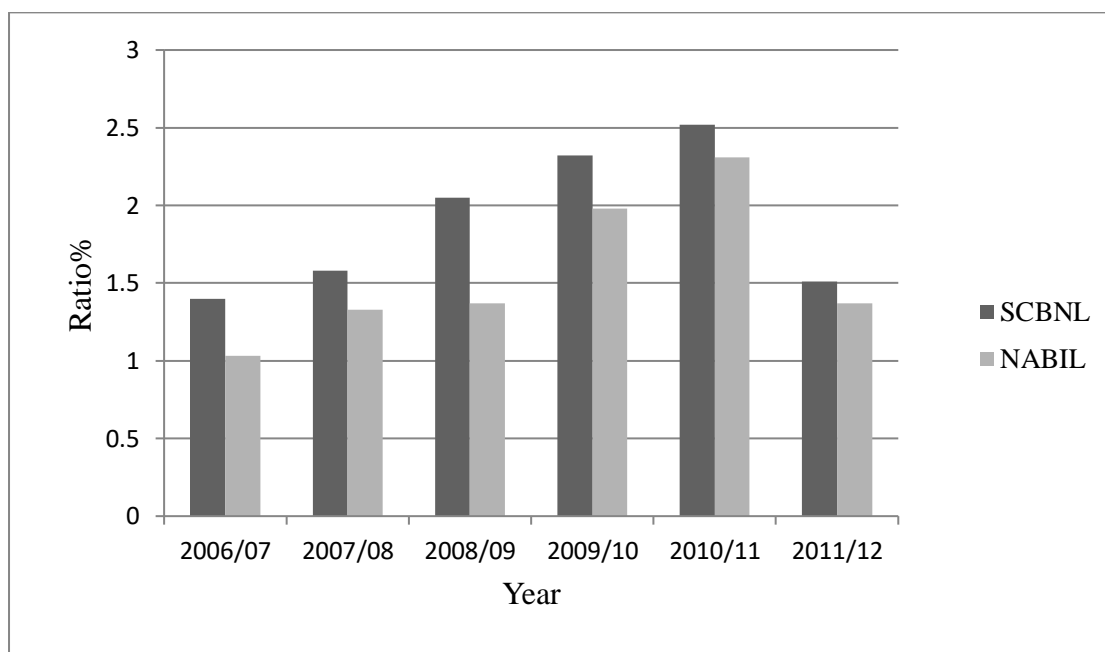
Current ratios of NABIL and SCBNL, and their means, standard deviations and coefficients of variation during the period of study between 2006/07 and 2011/2012 are presented in Table 4.1.

Table 4.1
Comparative Current Ratio

Year	Ratio %	
	SCBNL	NABIL
2006/07	1.40	1.03
2007/08	1.58	1.33
2008/09	2.05	1.37
2009/10	2.32	1.98
2010/11	2.52	2.31
2011/12	1.51	1.37
Mean \bar{X}	1.90	1.57
S.D.	0.43	0.44
CV	22.63	28.03

Source: Appendix-I(A)

Figure 4.1
Comparative Current Ratio



In table 4.1 and figure 4.1, current ratio of NABIL and SCBNL shows a fluctuating trend. The mean current ratio of SCBNL during the period of study was 1.90:1, slightly higher than that of NABIL, i.e. 1.57:1. Comparing the means with standard

current ratio of 2:1 indicates the fact that NABIL had maintained somehow low liquidity in terms of current ratio whereas SCBNL had maintained nearly standard current ratio. Similarly, the comparison between the mean current ratios of the two banks shows that NABIL had maintained even lower liquidity than that of SCBNL. In addition, a look at the coefficient of variation of current ratio of NABIL showed 28.03%, while that of SCBNL was 22.63% during the study period. It indicates the fact that'sNABIL ratios were more instable and inconsistent that those of SCBNL.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

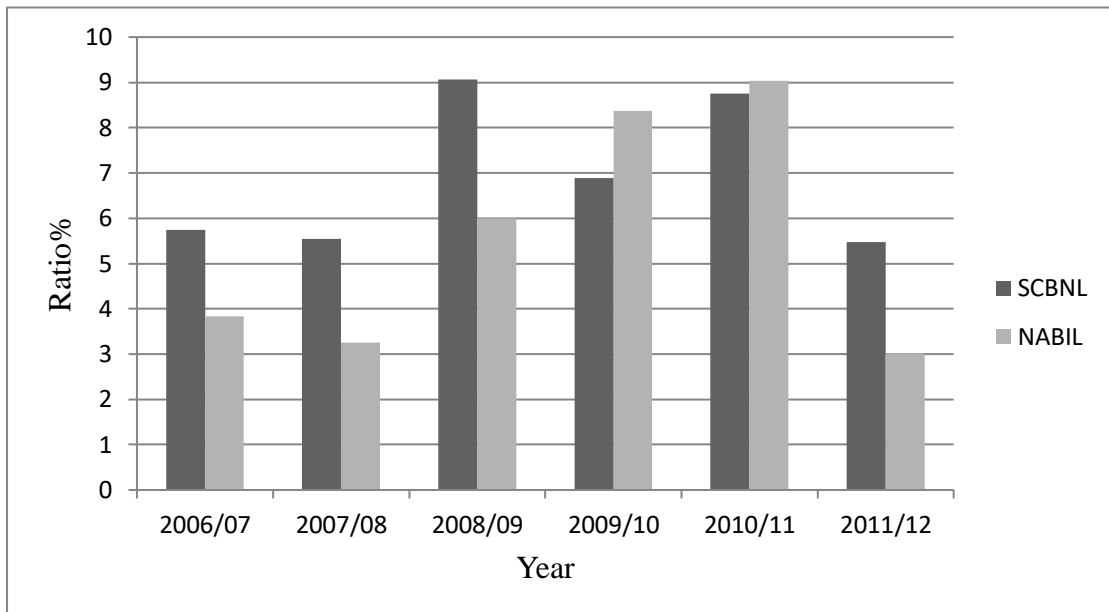
This is the most important ratio for measuring the extent of the liquidity of the commercial banks. The sound ratio indicates the strong liquid position of the banks to meet its customers' demand of immediate cash.

Table No. 4.2
Comparative Cash and Bank Balance to Total Deposit

Year	Ratio %	
	SCBNL	NABIL
2006/07	5.74	3.84
2007/08	5.54	3.26
2008/09	9.07	6.00
2009/10	6.89	8.37
2010/11	8.75	9.03
2011/12	5.48	3.01
Mean \bar{X}	6.91	5.58
S.D.	1.49	2.41
C.V.	21.55	43.19

Source: Appendix-I (B)

Figure No. 4.2
Comparative Cash and Bank Balance to Total Deposit Ratio



The table 4.2 and figure 4.2 states that cash and bank balance to total deposit ratio of two joint venture banks are in fluctuating trend. Data shows the comparative status of NABIL and SCBNL. According to the data, mean is 6.91 of SCBNL and 5.58 of NABIL. It shows that mean of SCBNL is higher than NABIL. The data of standard Deviation is 1.49 and 2.41 of SCBNL & NABIL. NABIL's CV is 21.55% and of SCBNL is 43.19% which shows that NABIL is more risky than SCBNL.

4.1.1.3 Cash and Bank Balance to Current Deposit Ratio

Another good indicator of the liquidity of the commercial banks is cash and bank balance to current deposit. Current deposit is that type of immediate non-interest bearing liability that needs to be assigned to the bearer of it all the time of demand. So provision of enough cash should be made so as to provide to the account holders instantly.

Table No. 4.3

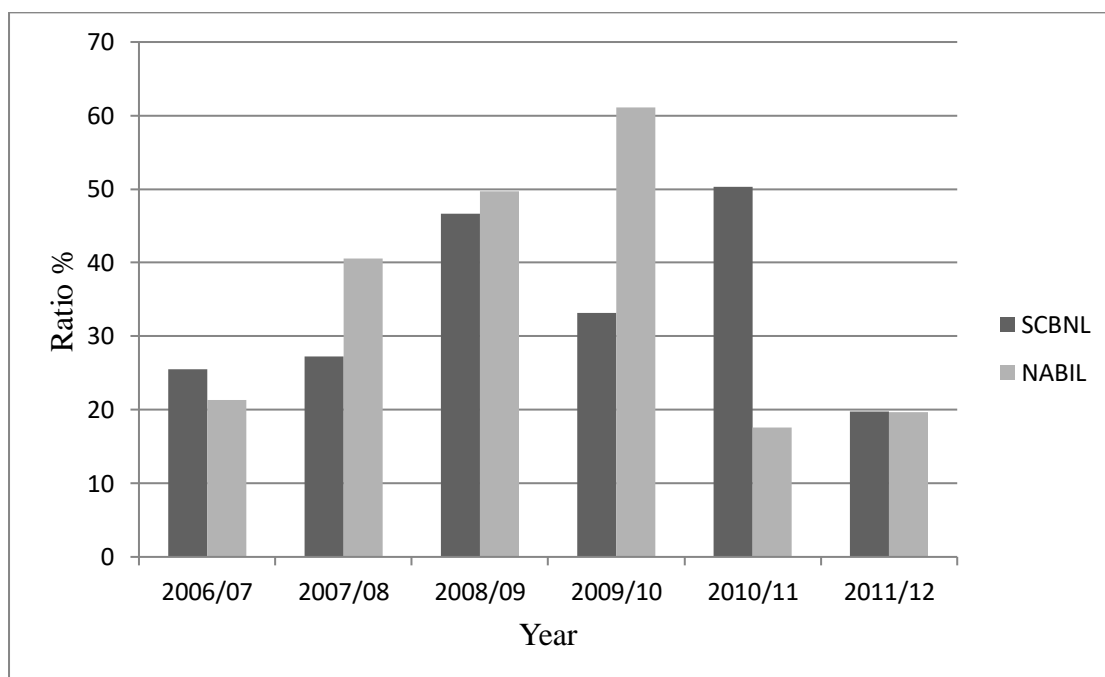
Comparative Cash and Bank Balance to Current Deposit Ratio

Year	Ratio %	
	SCBNL	NABIL
2006/07	25.50	21.30
2007/08	27.25	40.6
2008/09	46.62	49.7
2009/10	33.20	61.1
2010/11	50.57	17.6
2011/12	19.76	19.68
Mean \bar{X}	33.81	34.99
S.D.	10.38	15.37
C.V.	30.70	43.93

Source: Appendix-I (C)

Figure No. 4.3

Comparative cash and bank balance to current deposit ratio



The table 4.3 and figure 4.3 portrays the ratio of cash to current deposit for, SCBNL & NABIL. The average ratios of SCBNL and NABIL are 33.81 And 34.99 over six years. NABIL have the highest ratio in year 2009/10 i.e. 61.1% and SCBNL have

highest ratio in year 2010/11 i.e. 50.57% respectively and lowest ratio are SCBLL and NABIL is 19.76 % in year 2011/12 and 17.6 % in year 2010/11 respectively. The standard deviation are 10.38 and 15.37 of SCBLL and NABIL respectively. The coefficient of variation of NABIL is 43.93% which is higher than SCBLL i.e. 30.70%. Hence we conclude that cash and bank balance to current deposit ratio of SCBLL is less variable than NABIL.

4.1.2 Activity/Efficiency Ratio:

The Activity ratio indicates the efficiency in utilizing the funds or assets of the company. In terms of bank, deposit is the prime source of funds. So the fraction of ratio of money distributed in the form of loans and advances (credit and advances) is a major determining factor over the total funds collected in the banks in the form of deposit.

4.1.2.1 Credit and Advances to Total Deposit Ratio

Deposits are the main sources of funds for commercial banks. More than 50% of total assets have been found to be financed through deposits. Total deposit includes saving, fixed, call, current and fixed deposits. On the contrary, credit and advances (also called as loans and advances) are the sales figures of banks. So to utilize in CBs higher ratio is desirable.

Table No. 4.4
Comparative credit and advance to total deposit ratio

Year	Ratio %	
	SCBLL	NABIL
2006/07	42.46	75.95
2007/08	38.63	67.30
2008/09	42.77	67.08
2009/10	44.90	67.41
2010/11	36.57	74.48
2011/12	45.28	71.01
Mean \bar{X}	41.77	70.54
S.D	3.18	3.59
C.V	7.60	5.09

Source: Appendix-I (D)

Figure No. 4.4

Comparative credit and advance to total deposit ratio

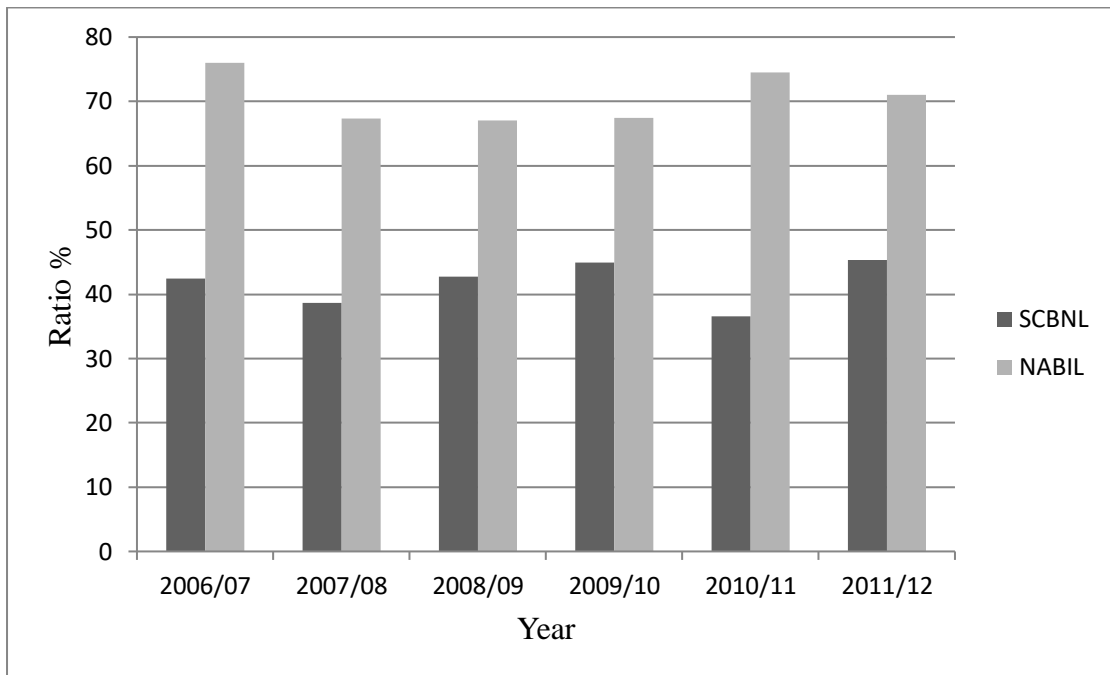


Table 4.4 and figure 4.4 shows the Comparative credit and advance to total deposit ratio of two selected banks. Mean ration of SCBNL is 41.77 during the study year. In the same way mean ratio of NABIL is 70.54. Mean ratio of NABIL is greater than SCBNL. The Standard deviation of credit and advance to total deposit ratio of SCBNL& NABIL were 3.18 and 3.59 respectively and CV of both SCBNL & NABIL are 7.60%and 5.09% respectively. This indicates that the NABIL bank has successfully mobilized to total deposit.

4.1.2.2 Credit and Advances to fixed Deposit Ratio

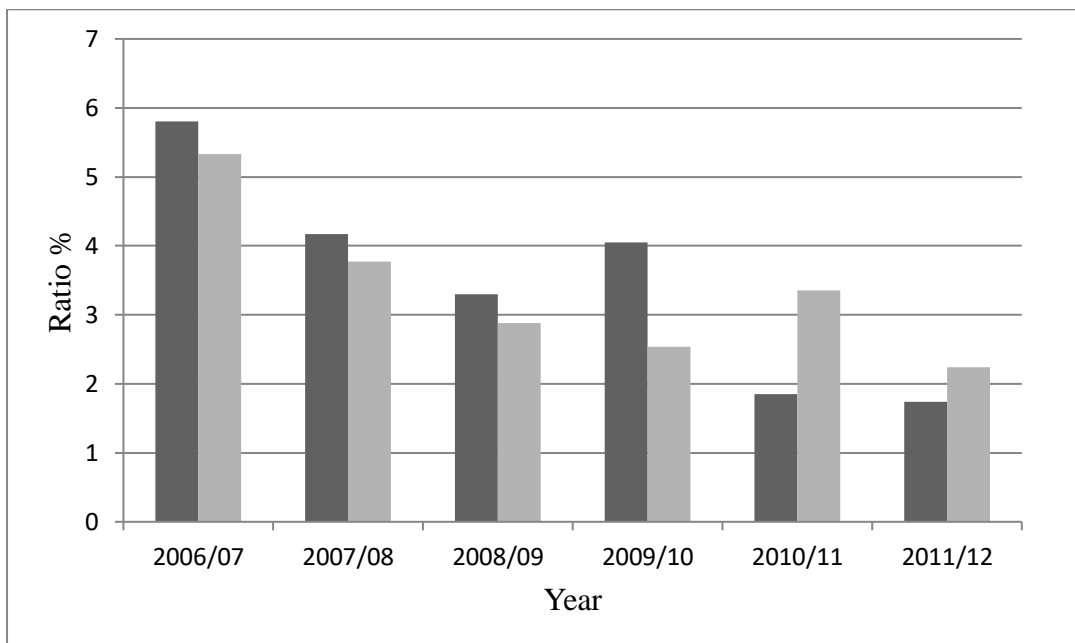
As fixed deposit is an interest bearing deposit, the extent of the utilization of it determines the efficiency of the bank. It should not remain idle. Otherwise, the performance of the bank will decline. Therefore, the study of the ratio of fixed deposit turnover ratio is quit rational.

Table No. 4.5
Comparative Credit and Advances Fixed deposit Ratio

Year	Ratio %	
	SCBNL	NABIL
2006/07	5.80	5.33
2007/08	4.17	3.77
2008/09	3.30	2.88
2009/10	4.05	2.54
2010/11	1.85	3.35
2011/12	1.74	2.24
Mean \bar{X}	3.48	3.35

Source: Appendix-I (E)

Figure No. 4.5
Comparative Credit and Advances to Fixed deposit



The table 4.5 and figure 4.5 shows Credit and Advances to Fixed deposit ratio. According to the data, mean ratio of SCBNL is 3.48 whereas NABIL is 3.35. It shows that SCBNL is higher than NABIL. It can be regarded as that SCBNL had mobilized

the funds obtained from fixed deposit in a better way than NABIL banks. SCBNL is more efficient in lending than NABIL banks.

4.1.2.3 Credit and Advances to Total Assets Ratio

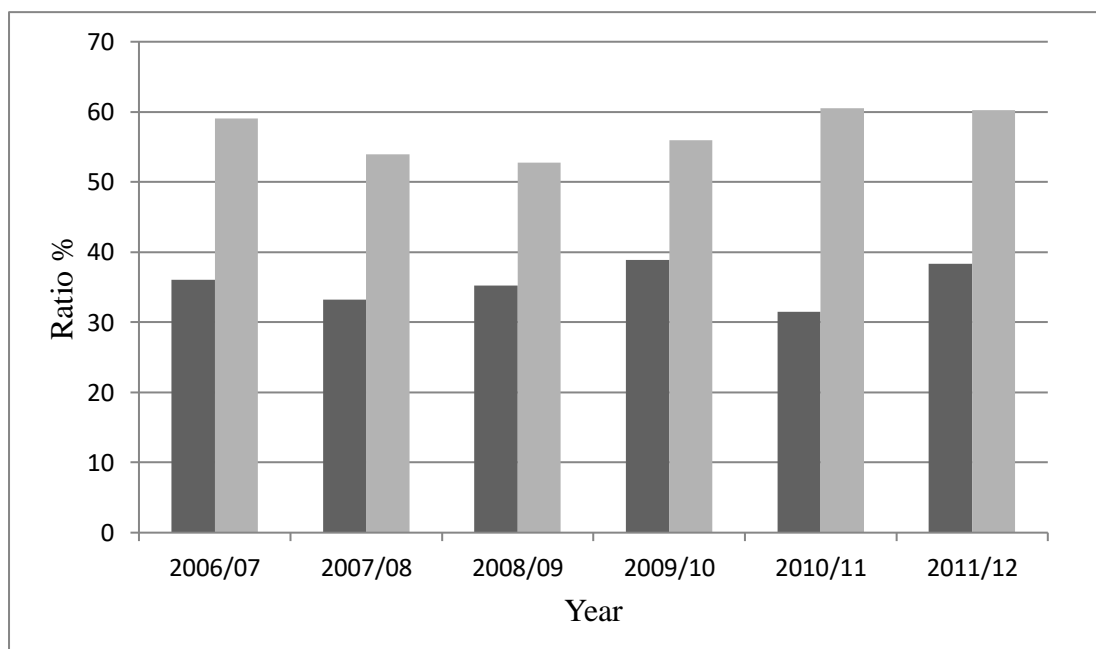
The entire of the funds are invested in the bank in the form of various assets. In other words, these are the sectors where the funds collected using various sources are employed or mobilized so as to get respective returns. The ratio desirable for this sector is sent percent. However, a ratio of over 50% is considered average.

Table No. 4.6
Comparative credit and Advance to total assets ratio

Year	Ratio %	
	SCBNL	NABIL
2006/07	36.09	59.07
2007/08	33.23	53.95
2008/09	35.20	52.78
2009/10	38.92	55.91
2010/11	31.47	60.54
2011/12	38.36	60.25
Mean \bar{X}	35.54	57.08

Source: Appendix-I (F)

Figure No. 4.6
Comparative credit and Advance to total assets ratio



From the table 4.6 and figure 4.6 it can be concluded that both banks have the ratio of fluctuating trend during the study period. In an average ratio, the bank maintains highest ratio of NABIL is 57.08% and ratio of SCBNL is 34.54%. This indicated that NABIL had more mobilized in total working fund than that of SCBNL.

4.1.3 Leverage Ratio

The leverage ratio of the commercial banks is measured by the extent that they have maintained ownership capital, borrowed capital or both in relation to build capital structure position of their firm. Therefore, this ratio measures the risk and long term return of the firm. Those can be measured as:

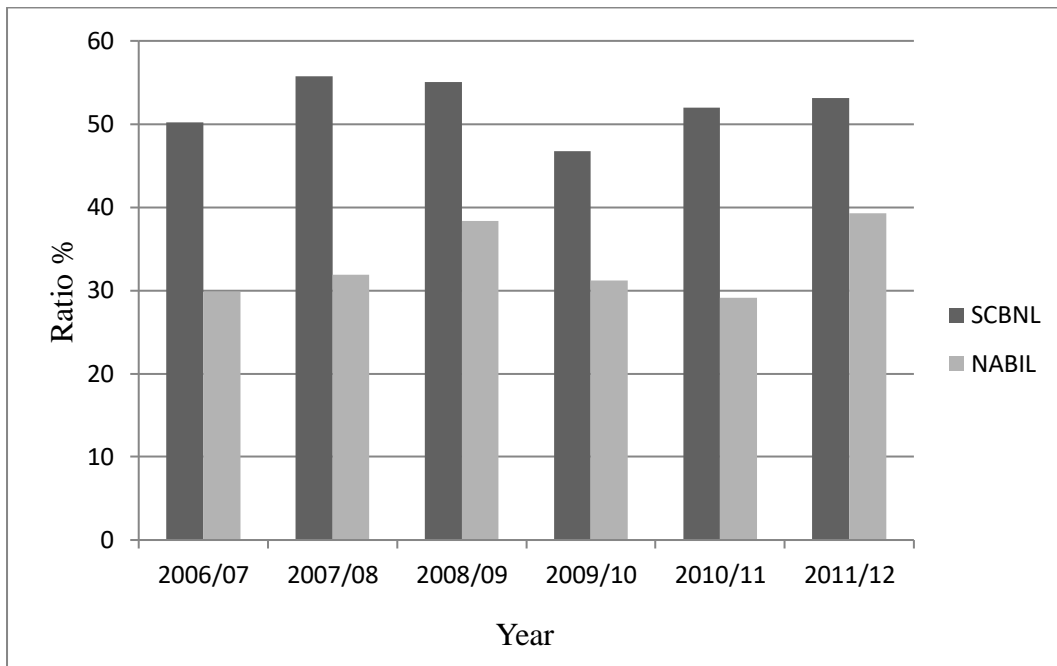
4.1.3.1 Total Investment to Total Deposit

Table no. 4.7
Comparative Total Investment to Total Deposit

Year	Ratio %	
	SCBNL	NABIL
2006/07	50.17	29.84
2007/08	55.75	31.91
2008/09	55.05	38.35
2009/10	46.74	31.23
2010/11	51.96	29.12
2011/12	53.14	39.25
Mean \bar{X}	52.14	33.28
SD	3.04	4.01
CV	5.84	12.05

Source: Appendix-I (G)

Figure No 4.7
Comparative Total Investment to Total Deposit



From the above comparative table 4.7 and figure 4.7 it can be concluded that both banks have the ratios of fluctuating trend during the study period. In average SCBNL has invested more amount of its total deposit in comparative to NABIL bank, i.e. 52.14 and the coefficient of variation SCBNL is 5.84%. It indicates that SCBNL is more consistent to make investment of total deposits than NABIL.

4.1.3.2 Investment on Shares and Debentures to Total Working Fund Ratio

Investment on share and Debenture to Total Working Fund Ratio shows the investment of bank on the share and debenture of other companies in terms of total Working fund.

Table No. 4.8

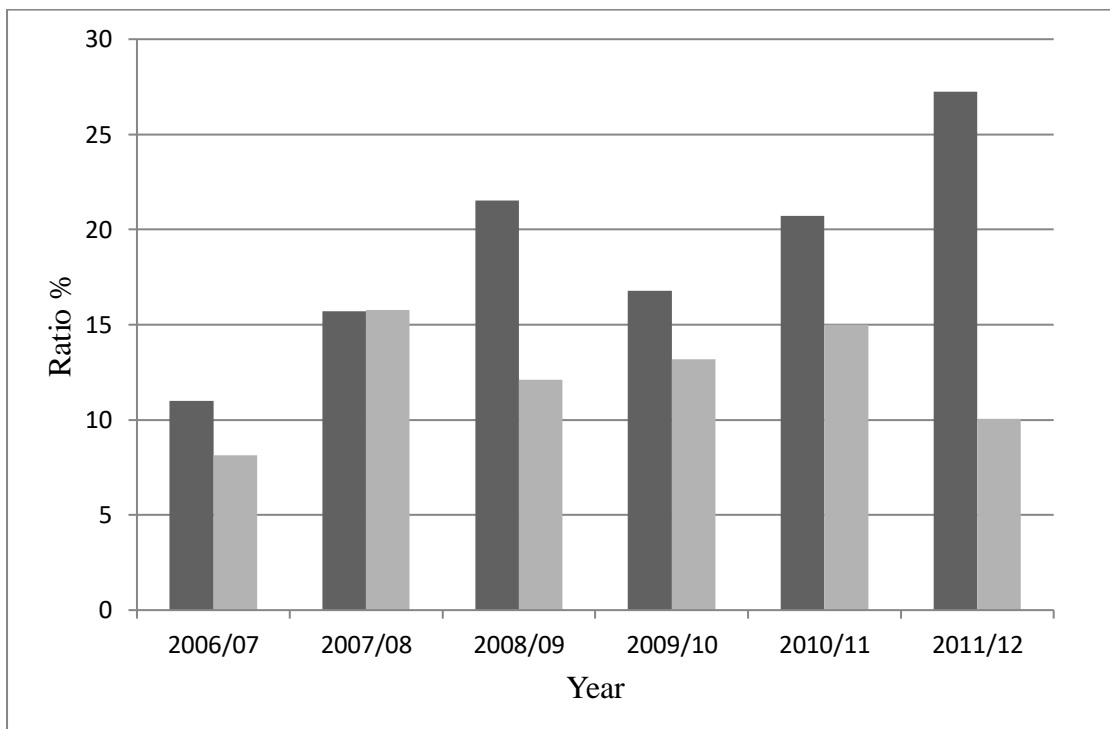
Comparative Inv. on Shares and Debn. to Total Working Fund Ratio

Year	Ratio %	
	SCBNL	NABIL
2006/07	10.98	8.14
2007/08	15.69	15.76
2008/09	21.54	12.11
2009/10	16.78	13.19
2010/11	20.71	15.01
2011/12	27.23	10.04
Mean \bar{X}	18.82	12.38
SD	5.12	2.66
CV	27.18	21.50

Source: Appendix-I (H)

Figure No.4.8

Comparative Inv. on Shares and Debn. to Total Working Fund Ratio



The table 4.8 and figure 4.8 shows Invt. on Shares and Debn. to Total Working Fund Ratio. The average ratios of NABIL& SCBNL are, 18.82 & 12.38 respectively. The standard deviation is 5.12 of SCBNL, which is higher than NABIL so SCBNL is more risky. The coefficient of variation shows than NABIL has more stable ratio than SCBNL.

4.1.3.3 Investment on Government Securities to Total Working Fund Ratio

Investment on Government Securities to total Working Fund Ratio shows how much parts of total investment are there on government securities in percentage.

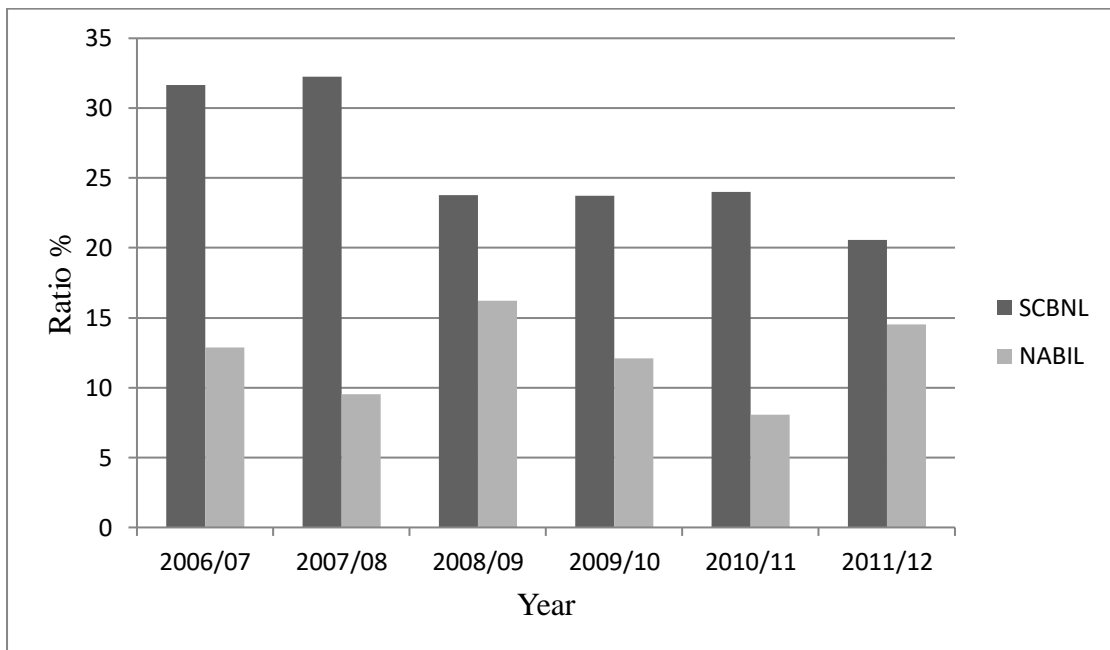
Table no. 4.9

Comparative Investment on Government Securities to total Working Fund

Year	Ratio %	
	SCBNL	NABIL
2006/07	31.66	12.87
2007/08	32.26	9.52
2008/09	23.77	16.20
2009/10	23.72	12.08
2010/11	23.99	8.07
2011/12	20.55	14.54
Mean \bar{X}	25.99	12.21
SD	4.38	2.78
CV	16.86	22.73

Source: Appendix-I (I)

Figure No. 4.9
Comparative Investment on Government Securities to
Total Working Fund



The table 4.9 and figure 4.9 shows the investment on government securities to total working fund of SCBNL & NABIL which is in fluctuating trend. SCBNL & NABIL have the highest ratio of 31.66% & 16.20 % in the year 2006/07 & 2008/09 respectively. Likewise, they have the lowest ratio of 20.55% in the year 2011/12 and 8.07% in the year 2010/11. On the average SCBNL has highest mean ratio i.e. 25.99%. The coefficient of variation indicated of SCBNL (i.e.16.86%) has more stable ratio than of NABIL bank.

4.1.4 Profitability Ratio

We also need the indicators of profitability position in order to identify the overall utilization of the funds collected and used in the banks. The major ratios that we consider under this sector are:

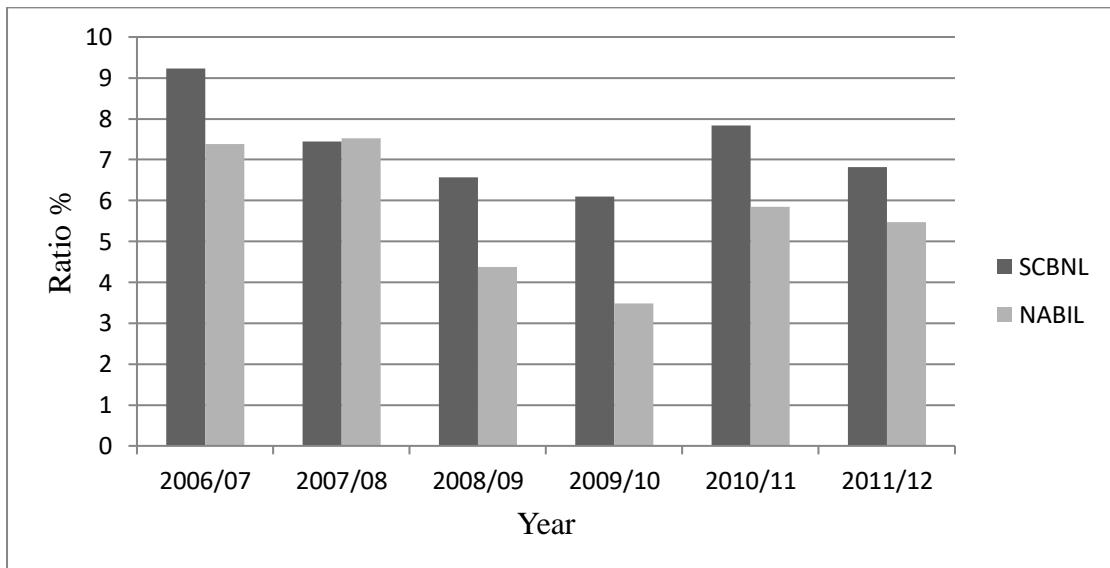
4.1.4.1 Return on Credit and Advance

Table No. 4.10
Comparative Return on Credit and Advance Ratio

Year	Ratio %	
	SCBNL	NABIL
2006/07	9.23	7.38
2007/08	7.44	7.52
2008/09	6.57	4.38
2009/10	6.10	3.49
2010/11	7.84	5.84
2011/12	6.82	5.47
Mean \bar{X}	7.33	5.68
SD	1.02	1.46
CV	13.90	25.77

Source: Appendix –I (J)

Figure No. 4.10
Comparative Return on Credit and Advance Ratio



The table 4.10 and figure 4.10 analyses the return on credit and advance of SCBNL & NABIL have the ratio of fluctuating trend. During the study period, SCBNL has the highest ratio of 9.23% than that of NABIL. In average, SCBNL has the highest mean ratio of 7.33% where as NABIL has 5.68%. Coefficient of variation indicates that SCBNL has less variance between six years study period than NABIL.

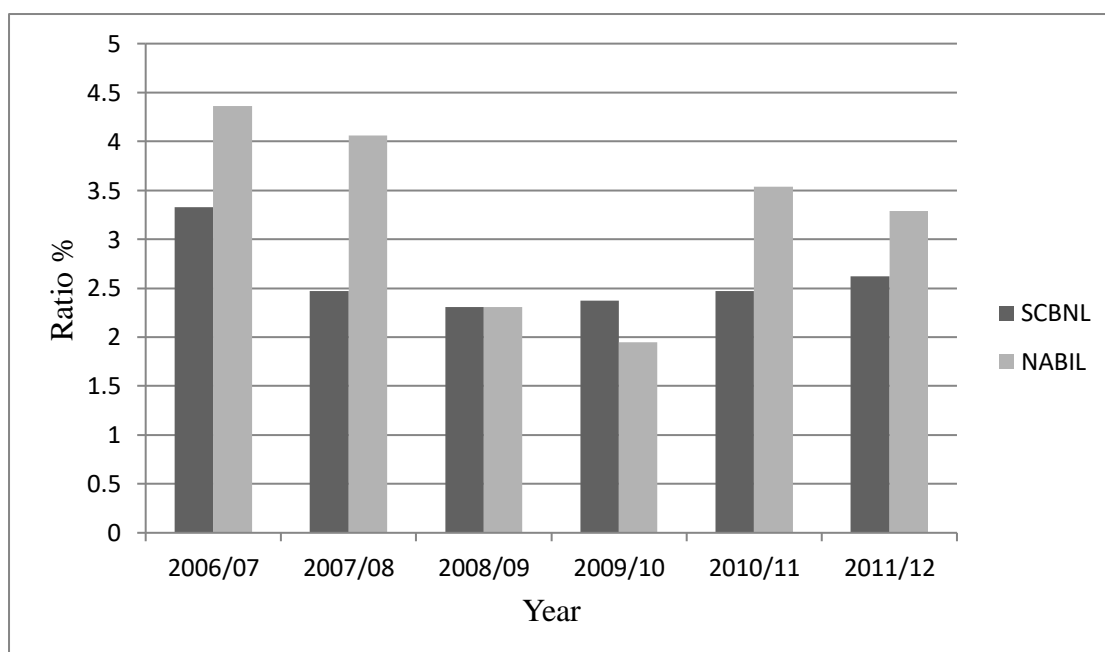
4.1.4.2 Return on Total Working Fund

Table No. 4.11
Comparative Return on Total Working Fund Ratio

Year	Ratio %	
	SCBNL	NABIL
2006/07	3.33	4.36
2007/08	2.47	4.06
2008/09	2.31	2.31
2009/10	2.37	1.95
2010/11	2.47	3.54
2011/12	2.62	3.29
Mean \bar{X}	2.60	3.25
SD	0.34	0.87
CV	13.18	26.75

Source: Appendix I (K)

Figure No. 4.11
Comparative Return on Total Working Fund Ratio



As per the above comparative table 4.11 and figure 4.11, the return on total working fund of SCBNL & NABIL have the ratio of rising and falling trend. During the study period, NABIL has the highest ratio of 4.36% than SCBNL. In case of coefficient of variation, SCBNL has the lowest C.V. of 13.18 % that of NABIL.

4.1.4.3 Total Interest Earned to Total Working Fund

This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest.

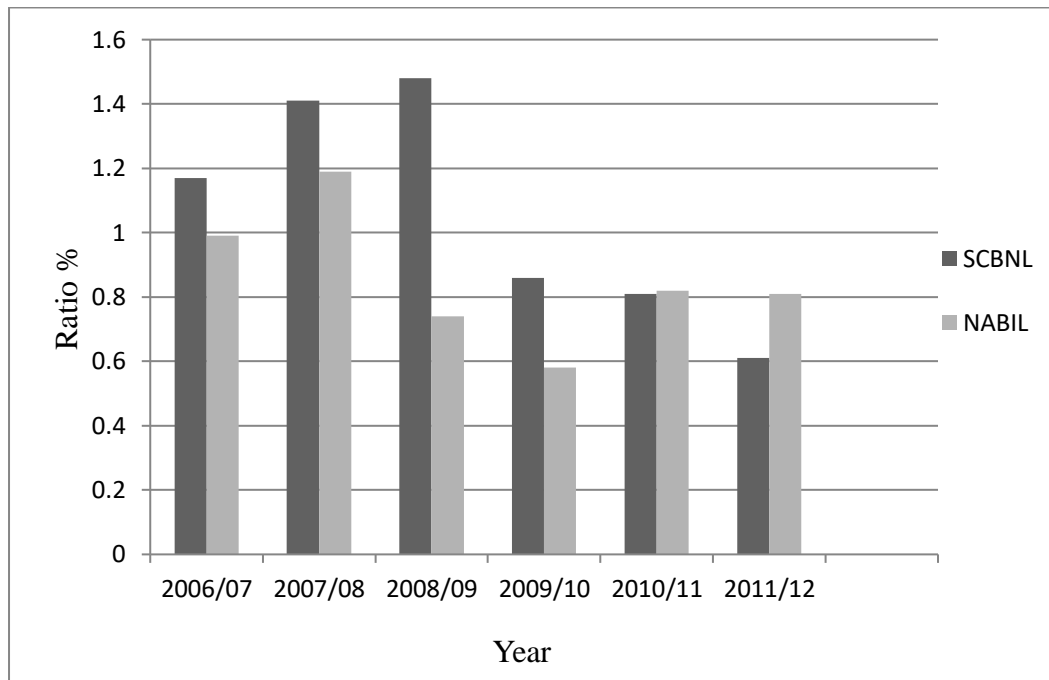
Table No. 4.12
Comparative Total Interest Earned to Total Working Fund Ratio

Year	Ratio %	
	SCBNL	NABIL
2006/07	1.17	0.99
2007/08	1.41	1.19
2008/09	1.48	0.74
2009/10	0.86	0.58
2010/11	0.81	0.82
2011/12	0.61	0.81
Mean \bar{X}	1.06	0.86
SD	0.32	0.19
CV	30.48	22.49

Source: Appendix- I (L)

Figure No. 4. 12

Comparative Total Interest Earned to Total Working Fund Ratio



The table 4.12 and figure 4.12 analyses shows the SCBNL had highest interest earned to total working fund ratio of 1.48% in the year 2008/09 and lowest ratio of 0.81% in the year 2011/12 Likewise, NABIL, have the highest ratio of 1.19% in the year 2007/08 and lowest ratio of NABIL has 0.58% in the year 2011/12. SCBNL has mean ratio of 1.06 and NABIL has mean ratio of 0.86%. The coefficient of variation of NABIL is less than SCBNL. It indicates that interest earning power of NABIL is more consistent than SCBNL.

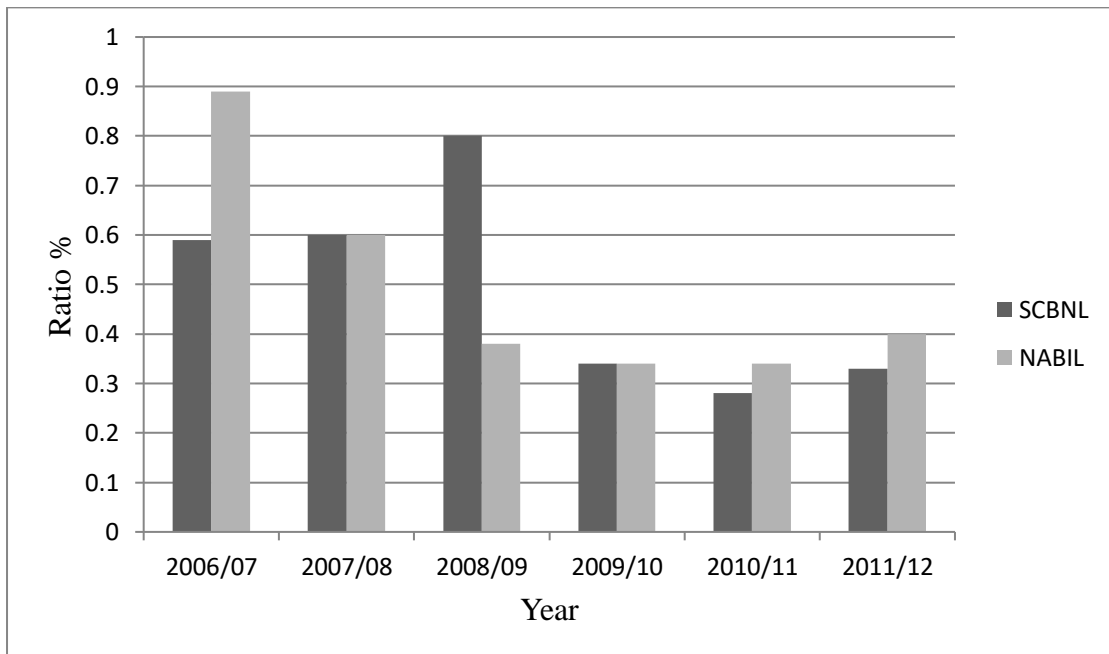
4.1.4.4 Total Interest Paid to Total Working Fund Ratio

Table 4.13
Comparative Total Interest Paid to Total Working Fund

Year	Ratio %	
	SCBNL	NABIL
2006/07	0.59	0.89
2007/08	0.60	0.60
2008/09	0.80	0.38
2009/10	0.34	0.34
2010/11	0.28	0.34
2011/12	0.33	0.40
Mean \bar{X}	0.49	0.50
SD	0.19	0.20
CV	38.46	40.16

Source: Appendix- I (M)

Figure No. 4.13
Comparative Total Interest Paid to Total Working Fund



The comparative table 4.13 and figure 4.13 shows NABIL has highest interest paid to total working fund ratio in fluctuating trend. SCBNL has 0.80% highest ratio in the year 2008/09 and lowest ratio of 0.28% in the year 2010/11. And NABIL have the

highest ratio of 0.89% in the year 2006/07. The coefficient of variation of NABIL is more than SCBNL.

4.1.5 Growth Ratio

The growth ratio represents how well the commercial banks are maintaining their economic and financial and financial position. To calculate, check and analyze the expansion and growth of the selected bank the following growth ratio are calculated.

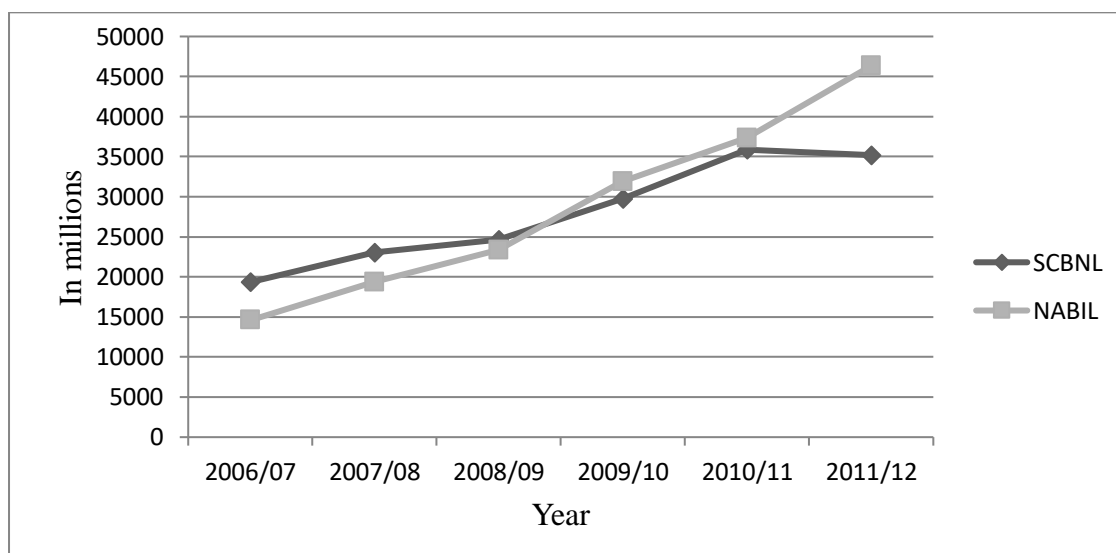
4.1.5.1 Growth Ratio of Total Deposits:

Table No 4.14
Growth Ratio of Total Deposits

Banks	Total Deposit						Growth rate (%)
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	
SCBNL	19344	23050.5	24640.3	29743.9	35871.8	35182.7	12.71
NABIL	14586.6	19348.4	23342.3	31915.1	37348.3	46334.8	26.01

Source: Appendix-II

Figure No. 4.14
Growth ratio of total deposits



The table 4.14 and figure 4.14 shows that the deposits of all the banks are in increasing trend except SCBNL in the year 2011/12, during six years of study period.

The growth ratio of SCBNL & NABIL is 12.71% & 26.01% respectively. The growth ratio of total deposit of NABIL is higher than that of SCBNL.

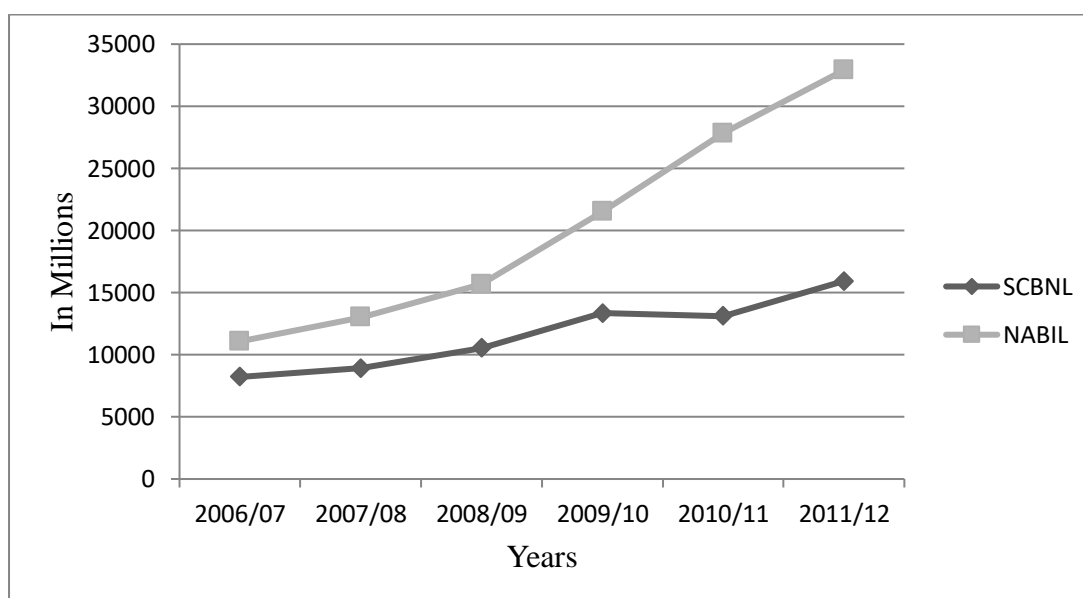
4.1.5.2 Growth Ratio of Loan and Advances

Table No. 4.15
Growth Ratio of Credit and Advances

Banks	Credit and Advances						Growth rate (%)
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	
SCBNL	8213.5	8905.1	10538.1	13355	13118.6	15932.2	18.01
NABIL	11078.0	13021.3	15657.0	21514.6	27816.6	32902.8	31.28

Source: Appendix-II

Figure No. 4.15
Growth Ratio of Credit and Advances



The table 4.15 and figure 4.15 describes the growth ratio of credit and advance of SCBNL & NABIL under six years study period. The table shows the high growth ratio of NABIL is 31.28% and lowest growth ratio of SCBNL is 18.01%.

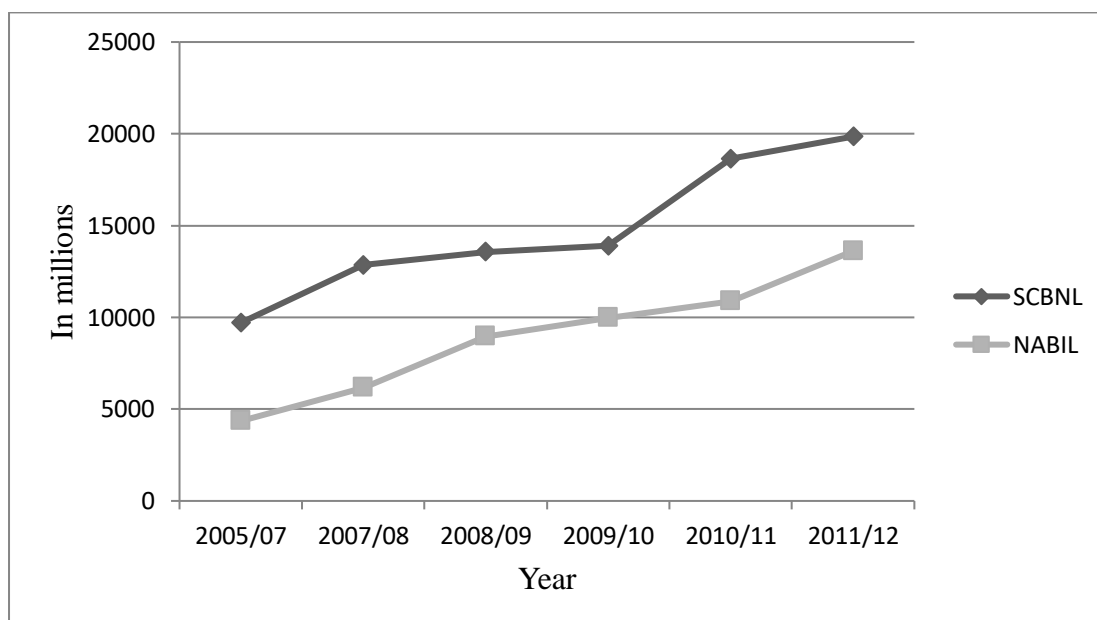
4.1.5.3 Growth Ratio of Total Investment

Table No 4.16
Growth Ratio of Total Investment

Banks	Total Investment						Growth rate(%)
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	
SCBNL	9704.1	12850.6	13564.0	13902.8	18640.5	19847.5	15.39
NABIL	4353.35	6174.86	8952.33	9966.56	10874.94	13612.07	25.61

Source: Appendix-II

Figure No.4.16
Growth Ratio of Total Investment



The table 4.16 and figure 4.16 shows that SCBNL and NABIL have increasing trend in its investment from the year 2006/07 to 2011/12. Where, SCBNL and NABIL have the growth rate of 15.39% and 25.61% respectively. Among them NABIL has the highest growth rate than SCBNL.

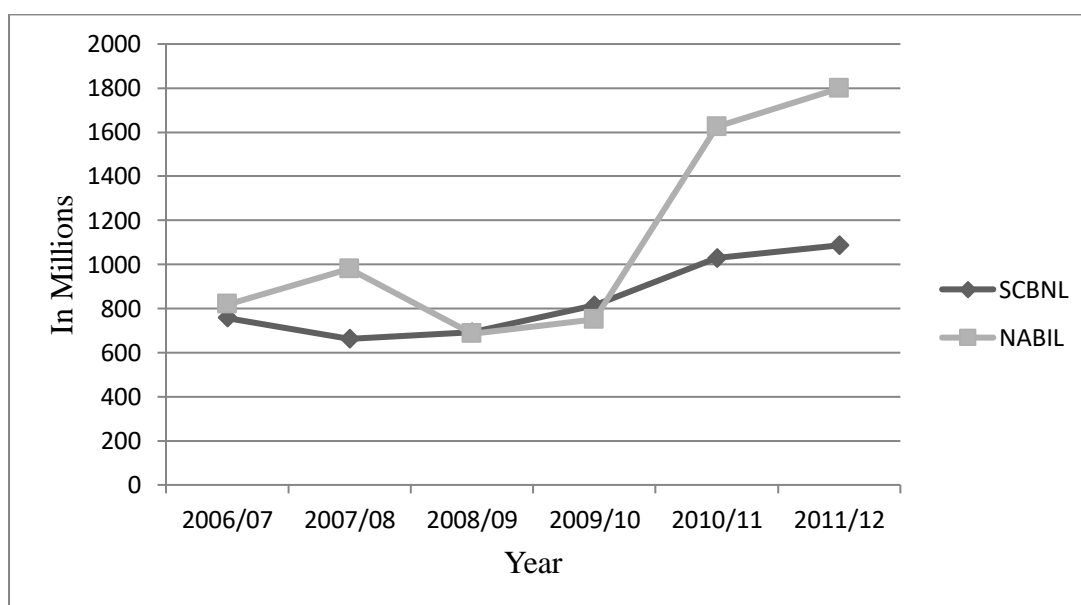
4.1.5.4 Growth Ratio of Net Profit

Table No.4.17
Growth Ratio of Net Profit

Banks	Net Profit						Growth rate(%)
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	
SCBNL	757.9	662.5	692.1	814.4	1028.3	1086.8	9.43
NABIL	817.88	979.05	685.58	750.35	1624.86	1798.70	21.78

Source: Appendix-II

Figure No. 4.17
Growth Ratio of Net Profit



The table 4.17 and figure 4.17 describes the growth ratio of Net Profit of SCBNL & NABIL within six years study period. The table shows the growth ratio of NABIL is 21.78% and growth ratio of SCBNL is 9.43%.

4.2 Correlations Analysis

Correlation between the important variables is analyzed under this heading.

4.2.1 Analysis of correlation coefficient between deposit and Total Investment

The following table describes the relationship between deposit and total investment of SCBNL & NABIL within six years study period. In this case, deposit is independent variables (X) and total investment is dependent variable (Y).

Total No. 4.18

Correlation Coefficient between Deposit and Total Investment

Banks	Base of Evaluation			
	r	r ²	P.E.	6P.E.
SCBNL	0.74	0.55	0.19	1.11
NABIL	0.82	0.67	0.14	0.81

Source: Appendix – III

From the table 4.23, it is found that coefficient of correlation between deposit and total Investment of SCBNL is 0.74. And the value of coefficient of determination (r^2) is 0.55 which means 55% of investment decision is depends upon deposit and only 45% of Investment is depend upon other variables. Similarly probable error (P.E.) is 0.19 and 6P.E is 1.11 which shows that 'r' is lower than 6P.E. therefore it reveals that relationship between deposit and investment is not significant.

Likewise in case of NABIL, coefficient of correlation between deposit and total Investment is 0.82. Coefficient of determination (r^2) is 0.67 which means 67% of investment decision is depends upon deposit and 33 % of Investment is depending upon other variables. And its P.E. is 0.14 and similarly 6P.E. is 0.81 which is lower than 'r'. It means correlation of coefficient between deposit and Investment of NABIL is Significant.

4.2.2 Analysis of correlation coefficient between Deposit and Credit and Advance

The following table describes the relationship between deposit and total investment of SCBNL & NABIL within six years study period. In this case, deposit is independent variable (X) and credit and advance is dependent variable (Y).

Total No. 4.19

Correlation Coefficient between Deposits and Credit and Advance

Banks	Base of Evaluation			
	r	r ²	P.E.	6P.E.
SCBNL	0.92	0.85	0.06	0.36
NABIL	0.99	0.99	0.01	0.03

Source: Appendix – III

From the table 4.24, it is found that coefficient of correlation between deposit and credit and advances of SCBNL is 0.92. And the value of coefficient of determination (r^2) is 0.85 which means 85% of credit and advance decision is depends upon deposit and only 15% of credit and advance is depend upon other variables. Similarly probable error (P.E.) is 0.06 and 0.36 which shows that 'r' is highly greater than 6P.E. therefore it reveals that relationship between deposit and credit and advance is significant.

Likewise in case of NABIL, coefficient of correlation between deposit and credit and advances is 0.99. Coefficient of determination (r^2) is 0.99 which means 99% of credit and advance decision is depends upon deposit and only 1 % of credit and advance is depend upon other variables. Similarly probable error (P.E.) is 0.01 and similarly 6P.E is 0.03 which is lower than 'r' i.e. 0.99. It means correlation of coefficient between deposit and credit and advance of NABIL is significant.

4.3 Major Findings of the Study

4.3.1 Major findings of Ratio Analysis

4.3.1.1 Finding from liquidity ratio:

- Average current ratio of SCBNL is higher than that of NABIL which reveals that NABIL had maintained even lower liquidity than that of SCBNL.
- Average ratio of cash and bank balance to total deposit reveals that SCBNL has higher ratio in comparison to NABIL banks which shows that the liquidity position of SCBNL is quite well than NABIL banks.
- Average ratio of cash and bank balance to current deposit ratio reveals that NABIL has higher ratio than SCBNL. It shows that the liquidity position on current deposit is

better in NABIL. On the other hand C.V. of SCBNL is lower than NABIL which means liquidity position on current deposit is more consistent in SCBNL in compare to NABIL.

b) Findings from activity/efficiency ratio

- SCBNL has the lower ratio which means it has mobilized its collected deposit in credit and advances more than NABIL bank but SCBNL seems weak to mobilize its collected deposit in credit and advances.
- The average ratio of credit and advances to fixed deposit ratio of SCBNL is higher than NABIL bank. It can be regarded that SCBNL has utilized the funds collected from fixed deposits in better way than NABIL bank.
- Average credit and advance to total assets ratio shows that NABIL bank seems successful to mobilize its total working fund as credit and advance in comparison to SCBNL banks.

c) Finding from leverage ratio

- The average ratio of total investment to total deposit ratio of SCBNL is higher than NABIL. The variability ratio SCBNL is lower than NABIL. It seems to be more consistent than NABIL.
- The average ratio of investment on government securities to current assets of SCBNL is higher than that of NABIL bank. It reveals that investment on government securities of SCBNL is stronger than that of NABIL banks. Analysis shows that investment on government securities of SCBNL is more consistent.
- The mean ratio of investment on share and debenture to total working fund of SCBNL is greater than NABIL. Whereas NABIL has the lower variability of the ratio. It shows the stable investment on share and debenture.

d) Finding from Profitability Ratio

- The average ratio of return on loan and advances of SCBNL is higher than NABIL. The variability ratio of SCBNL is lower than NABIL. It seems SCBNL has stable return.
- The average ratio of return on total working fund of NABIL is greater than SCBNL. Whereas the variability ratio of SCBNL is lower than NABIL. It indicates that the return on total working fund of SCBNL is stable.

- The average ratio of total interest earned to total working fund of SCBNL is higher than NABIL. SCBNL is more successful to earn interest than NABIL. It reveals that SCBNL is mobilizing its working fund successfully so that it has high earning capacity.
- The average ratio of total interest paid to total working fund of SCBNL is lower than NABIL. It reveals that SCBNL has not paid high interest as NABIL.

e) Findings from growth ratio

- The growth ratio of total deposits of all the banks are in increasing trend except SCBNL in the year 2011/12, during six years of study period but the growth ratio of total deposit of NABIL is higher than that of SCBNL.
- The growth ratio of credit and advance of SCBNL & NABIL under six years study period are in increasing trend but the growth ratio of NABIL is higher than that of SCBNL.
- The growth ratio of total investment of SCBNL and NABIL are in increasing trend in its investment from the year 2006/07 to 2011/12. Among them NABIL has the highest growth rate than that of SCBNL.
- The growth ratio of Net Profit of SCBNL & NABIL within six years study period are in fluctuating trend. Among them the growth ratio of NABIL is higher than that of SCBNL.

f) Finding from coefficient of correlation analysis:

- Correlation of coefficient between deposit and total investment of SCBNL is higher than NABIL it indicates that SCBNL is successfully mobilizing its deposits as investment.
- NABIL have the highest degree of correlation coefficient between deposit and loan and advance than SCBNL. It states that NABIL is in better position of mobilization of deposit as loan and advances in comparison to SCBNL.

CHAPTER: V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In this study, commercial banks namely, NABIL Bank Ltd. and Standard Chartered Bank Ltd. are chosen for their investment policy activities by taking six years' data from 2006/07 - 2011/12.

The study is mainly based on secondary sources. All the data are taken from NRB official website, concerned banks annual report, literature publication, balance sheet, profit and loss account, previous thesis report, different website, related books and booklets, journals and articles. After collecting data from different sources, it is analyzed by using financial and statistical tools. Findings are drawn by applying various financial tools viz. liquidity ratio, activity/efficiency ratio, leverage ratio, profitability ratio and growth ratio. Similarly, statistical tools have been used viz. mean, standard deviation, coefficient of variation and coefficient of correlation and probable error. In an attempt to fulfill the objectives of the research work, all secondary data are compiled, processed and tabulated as per necessity and figures, diagrams, different types of chart are also used.

This study suffer from different limitation: it considers two banks only and time and resource are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

5.2 Conclusions

Following conclusions have been drawn from this research work:

- From the analysis liquidity ratios are calculated to identify the situation of immediate cash and equipments to repay the customers and to meet other immediate liabilities at the time of demand. So the foremost liquidity ratios calculated for two JVBs are current ratio, cash and bank balance to current deposit ratio and cash and bank balance to total deposit. SCBNL has the highest cash and bank balance to total deposit ratio. Liquidity position of NABIL is comparatively lower than the SCBNL bank.

- Considering activity/efficiency ratio aspect of two banks, NABIL is relatively providing more credit and advance for the purpose of earning profit while SCBNL is providing less. But SCBNL is investing more of its collected deposits in comparison to NABIL bank. SCBNL seems more successful in mobilizing total fund on different types of govt. securities to maximize its earning capacity while NABIL has not investment its fund efficiently. Again, SCBNL has successfully invested more working fund in debenture and share of other company.
- The leverage ratio of SCBNL is higher than that of NABIL banks. It means that SCBNL had been able to mobilize total working funds in various lending sectors than that of NABIL.
- Considering the profitability SCBNL is relatively more successful to earn profit on Credit & Advance than NABIL. It has a highest average return on Credit & Advance ratio and also the coefficient of variation of return on Credit and Advance is also less than NABIL. It can be regarded that the return on assets of SCBNL is better than NABIL. The average ratio of return on total working fund indicates that working fund of NABIL is well managed. On other hand, SCBNL has mobilized its working fund properly to earn interest and its earning capacity is also high.
- Growth ratio of total deposits, total investment, Credit and advance and net profit of NABIL seems strong in comparison to SCBNL. Therefore, we must say that the NABIL bank is successful to increasing its source of funds and its mobilization.
- Correlation coefficients of both CBS are positive relationship or there is high degree of positive correlation between total deposit, loan and advances. Most of the loan and advances providing decision of NABIL and SCBNL are depended upon deposit and only 15 % decisions are explained by others variables. Moreover by considering the probable error, the value of confiscation of determination of both banks is greater than that of 6 P.E. so it can be concluded that the value of correlation coefficient is significant i.e. there is significant relationship between total deposit and advances.

5.3 Recommendations

Suggestion is the output of the whole study. It helps to take corrective action in their activities in future. Different analysis were done till arrive this step. On the basis of above analysis and finding of the study, following suggestion may be referred to overcome weakness, inefficiency and to fund mobilization of SCBNL & NABIL.

➤ **To increase deposit collection**

The main source of fund of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities like cumulative deposit scheme, prize bonds scheme, give cheque scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct fine housing scheme, education loan scheme and many others.

➤ **To maintain effective liquidity position**

The liquidity position of a bank may be affected by internal as well as external factors. The affecting factors may be interest rates, supply and demand position of credit and advance as well as saving, investment situation, central banks directives the lending policies, capability of management, strategies, planning and funds flow situations. The ratio of cash and bank balance to total deposit and current assets of NABIL is higher than that of SCBNL. It means NABIL has higher cash and bank balance than SCBNL and it indicates NABIL has higher idle cash and bank balance. It may decrease profit of bank SCBNL recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

➤ **To make more investment in government securities**

From the study, it has been revealed that NABIL has not invested more funds in government securities than that of SCBNL has made lower investment amount on government securities. Increasing large amount on assets, as cash and bank balance is not considered good from the profitability point of view of the bank as it doesn't earn any return. NABIL's investment on government securities is not in satisfactory position. investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in

future, it is more better in regard to safety than other means of investment . So, NABIL is strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle with this proverb “something is better than nothing”

➤ **To make more investment on share and debenture**

To get success in a competitive market and to raise financial and economic development of the country a commercial bank must mobilize its fund in different sectors such as purchase of share and debenture of other financial and non – financial companies and other govt. and non – govt. companies. It is also genuine means of utilization of resource. Thus these companies may chances to rise and that help to development of the country. Out of total working fund, investment on share and debenture of NABIL is lower than SCBNL. NABIL is suggested to invest more of its fund in share and debenture of different companies.

➤ **To make profitable return**

As a private sector, commercial banks cannot keep their eyes closed from the profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of shareholder, depositors and all its customers. NABIL's profitability position is high than that of SCBNL. So NABIL is recommended to utilize risky assets and shareholder funds to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheap fund being more profitable.

➤ **To invest deprive and priority sector**

NRB has directed to commercial bank to invest their certain % in deprives and priority sector and it is also responsibility of banks. Although the collected data did not classified the loan and advances, but the study has found that commercial bank are earning high profit because their services are only for profitable sector. It reveals that it has not granted enough loans on priority and deprive sector. So it is recommended to thoroughly follow the directives issues by NRB and invest in priority and deprive sector and also to invest on other small – scale industries like, public utilities, health, sanitation and drinking water education and agriculture etc.

➤ **Liberal lending policy and sound credit collection policy**

To get success in competitive banking market, commercial bank must utilize their deposit as loan and advance. Loan and advance are the main source of income and also mean of utilization resources of commercial banks. Negligence in administrating these assets could be the cause of liquidity crisis in bank and one of the main reasons of the bank failure. Collection of loan has been most challenging task of commercial banks these days. therefore, it is recommended to SCBNL & NABIL to follow liberal lending policy when sensations loan and advance with sufficient guaranty and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and as well as legal procedure if require.

➤ **To adopt innovation approach to bank marketing**

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. Marketing is an effective tool to attract and retain the customers. Without effective marketing strategy anyone be along behind in today's competitive environment. Different marketing technique like advertisement through audio – visual, published web site, documentary etc. are flowed. Similarly, draw attentions of customer through new technology like, E – banking, mobile banking, increase investment through their wide international banking network should be introduced by those who have not.

Hence, economic development of the country depends upon the growth of commercial banks. If the service of commercial banks expands all over the country it collects idle money from every corner of the country and can be utilized for income generation purpose. HMG has also encouraged the commercial banks to expand banking service in rural areas and communities without making unfavorable impact in their profit. Therefore, all the banks are recommended to expand their branch and providing banking service and facilities to the rural areas and communities to accelerate the economic development of the country.

Being a developing country, economic environment of Nepal is not good condition. The strong economic structure is needed for the rapid overall development.

Commercial banks play vital role in the developing country like Nepal. Commercial banks are facing several problems related to fund mobilization. They have it rush with modern banking technology so that would be professional institutions. If commercial banks follow above – mentioned suggestions, they would be successful in reaching it the modern innovative and competitive banking market.

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APPENDIX

Appendix-I (A)

Calculation of current ratio

(Rs. In Millions)

Banks	Years					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
NABIL						
Current Assets	1754.4	2627	3952.6	4278.2	5880.6	4065.36
Current Liabilities	1710.7	1976.2	2875	2156.3	2551	2972.02
Ratio %	1.03	1.33	1.37	1.98	2.31	1.37
SCBNL						
Current Assets	1865.2	2371.6	3393.2	3806.1	4998.5	3319.6
Current Liabilities	1334.9	1498.3	1658.8	1637.4	1985.3	2202.7
Ratio %	1.40	1.58	2.05	2.32	2.52	1.51

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (B)

Calculation of Cash and Bank Balance to total deposit ratio

(Rs. In Millions)

Banks	Years					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
NABIL						
Cash & Bank Balance	556.7	630.4	1399.19	2671.42	3373.12	1395.55
Total deposit	14587.30	19348.10	23342.75	31915.48	37348.55	46335.23
Ratio %	3.84	3.26	6.00	8.37	9.03	3.01
SCBNL						
Cash & Bank Balance	1111	1276	2235	2050	3137	1929
Total deposit	19344	23051	24640	29744	35872	35183
Ratio %	5.74	5.54	9.07	6.89	8.75	5.48

Sources: Annual Report of NABIL & SCBNL Banks.

Calculation of Expected Return (\bar{X}), Standard Deviation (σ) & Coefficient of Variation (CV) of SCBNL of cash and bank balance to total deposit ratio is presented below:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{5.74 + 5.54 + 9.07 + 6.89 + 8.75 + 5.48}{6} = 6.91$$

Ratio (X)	X ²
5.74	32.95
5.54	30.69
9.07	82.27
6.89	47.47
8.75	76.56
5.48	30.03
$\sum X=41.47$	$\sum X^2 = 299.97$

Standard Deviation (σ) =

$$\sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2} = \sqrt{\frac{299.97}{6} - \left(\frac{41.47}{6}\right)^2} = 1.49$$

Coefficient of variation (CV) = $\frac{\sigma}{\bar{X}} \times 100\%$

$$= \frac{1.49}{6.91} \times 100\% = 21.55\%$$

Similarly, calculation is done for NABIL.

Appendix-I (C)

Calculation of Cash and Bank Balance to current deposit

(Rs. In millions)

Name of the Bank	Particular	Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL	Cash & Bank Balance	1111	1276	2235	2050	3137	1929
	Current deposit	4356.3	4681.8	4794.5	6174.6	6202.8	9763.2
	Ratio (%)	25.50	27.25	46.62	33.20	50.57	19.76
NABIL	Cash & Bank Balance	556.7	630.4	1399.19	2671.42	3373.12	1395.55
	Current deposit	2843.5	2953.3	3446.1	5365.8	5515.9	7920.66
	Ratio (%)	19.58	21.35	40.60	49.79	61.15	17.62

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (D)

Calculation of Credit and Advances to total deposit ratio

(Rs. In Millions)

Name of Banks	Years					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL						
Credit & Advance	8214	8905	10538	13355	13119	15932
Total deposit	19344	23051	24640	29744	35872	35183
Ratio %	42.46	38.63	42.77	44.90	36.57	45.28

NABIL						
Credit & Advance	11078.2	13021.80	15657.44	21515.32	27816.61	32903.33
Total deposit	14587.3	19348.10	23342.75	31915.48	37348.55	46335.23
Ratio %	75.95	67.30	67.08	67.41	74.48	71.01

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (E)

Calculation of Credit and Advance to Fixed deposit ratio

(Rs. In Millions)

Name of Bank	Particulars	Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL	credit & advance	8214	8905	10538	13355	13119	15932
	Fixed Deposit	1416.4	2136.3	3196.5	3301.1	7101.7	9175.1
	Ratio	5.80	4.17	3.30	4.05	1.85	1.74
NABIL	credit & advance	11078.2	13021.8	15657.4	21515.3	27816.6	32903.3
	Fixed Deposit	2078.6	3450.2	5435.2	8464.1	8310.7	14711
	Ratio	5.33	3.77	2.88	2.54	3.35	2.24

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (F)

Credit and Advance to total assets ratio

(Rs. In Millions)

Name of Banks	Years					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL						
Credit & Advance	8214.00	8905.00	10538.00	13355.00	13119.00	15932.00
Total assets	22759.50	26798.00	29937.00	34313.00	41679.00	41525.00
Ratio %	36.09	33.23	35.20	38.92	31.47	38.36

NABIL						
Credit & Advance	11078.20	13021.80	15657.44	21515.32	27817.61	32903.33
Total assets	18752.90	24135.38	29660.10	38479.20	45942.53	54609.27
Ratio %	59.07	53.95	52.78	55.91	60.54	60.25

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (G)

Calculation of Investment of Total Deposit Ratio

Name of the Bank	Particular	Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL	Total Investment	9704.0	12851.00	13564.00	13903.00	18641.00	19846.00
	Total Deposit	19344.0	23051.00	24640.00	29744.00	35872.00	37348.55
	Ratio%	50.17	55.75	55.05	46.74	51.96	53.14
NABIL	Total Investment	4353.5	6175.60	8952.28	9967.62	10875.38	13612.70
	Total Deposit	14587.3	19348.10	23342.75	31915.48	37348.55	34681.64
	Ratio%	29.84	31.91	38.35	31.23	29.12	39.25

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (H)

Calculation of Invt. on Shares and Debn. to Total Working Fund Ratio

(Rs. In Millions)

Name of the Bank	Particular	Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL	Investment on share & debenture	2499	4206	6448	5757	8633	11308
	Total Working fund	22759.50	26798	29937	34313	41679	41525
	Ratio(%)	10.98	15.69	21.54	16.78	20.71	27.23
NABIL	Investment on share & debenture	1526.90	3803.70	3593.34	5077.95	6896.74	5484.11
	Total Working fund	18752.90	24135.38	29660.10	38479.20	45942.53	54609.27
	Ratio(%)	8.14	15.76	12.11	13.19	15.01	10.04

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (I)

Calculation of Invt. on Government securities to Total Working Fund Ratio

(Rs. In Millions)

Name of the Bank	Particulars	Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL	Investment on government securities	7205.00	8645.00	7116.00	8138.00	9999.00	8532.00
	Total Working fund	22779.50	26798.00	29937.00	34313.00	41679.00	41525.00
	Ratio(%)	31.66	32.26	23.77	23.72	23.99	20.55
NABIL	Investment on government securities	2414.40	2298.90	4806.80	4647.83	3706.35	7941.60
	Total Working fund	18752.90	24135.38	29660.10	38479.20	45942.53	54609.27
	Ratio(%)	12.87	9.52	16.20	12.08	8.07	14.54

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (J)

Calculation of Return on credit and Advance Ratio

(Rs. In Millions)

Name of the Bank	Particulars	Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL	Net Profit	758.00	663.00	692.00	814.00	1028.00	1087.00
	Credit & Advance	8214.00	8905.00	10538.0	13355.0	13119.0	15932.0
	Ratio %	9.23	7.44	6.57	6.10	7.84	6.82
NABIL	Net Profit	818.80	979.50	686.80	750.54	1625.62	1799.02
	Credit & Advance	11078.2	13021.8	15657.4	21515.32	27817.6	32903.3
	Ratio %	7.38	7.52	4.38	3.49	5.84	5.47

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (K)

Calculation of Return on Total Working Fund Ratio

(Rs. In Millions)

Name of the Bank	Particulars	Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL	Net Profit	758.00	663.00	692.00	814.00	1028.00	1087.00
	Total Working Fund	22779.50	26798.00	29937.00	34313.00	41679.00	41525.00
	Ratio %	3.33	2.47	2.31	2.37	2.47	2.62
NABIL	Net Profit	818.80	979.50	686.80	750.54	1625.62	1799.02
	Total Working Fund	18752.90	24135.38	29660.10	38479.20	45942.53	54609.27
	Ratio %	4.36	4.06	2.31	1.95	3.54	3.29

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (L)

Calculation of Interest Earned to Total Working Fund Ratio

(Rs. In Millions)

Name of the Bank	Particular	Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL	Interest Earned	267.00	378.00	442.00	294.00	338.00	251.00
	Total Working Fund	22779.5	26798.0	29937.0	34313.00	41679.0	41525.00
	Ratio %	1.17	1.41	1.48	0.86	0.81	0.61
NABIL	Interest Earned	185.70	288.58	220.47	224.69	378.20	440.41
	Total	18752.9	24135.4	29660.1	38479.20	45942.5	54609.3

	Working Fund						
	Ratio %	0.99	1.19	0.74	0.58	0.82	0.81

Sources: Annual Report of NABIL & SCBNL Banks.

Appendix-I (M)

Calculation of Interest Paid to Total Working Fund Ratio

(Rs. In Millions)

Name of the Bank	Particular	Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
SCBNL	Interest Paid	132.00	160.00	241.00	116.00	118.00	136.00
	Total Working Fund	22779.5	26798.0	29937.0	34313.0	41679.00	41525.0
	Ratio %	0.59	0.60	0.80	0.34	0.28	0.33
NABIL	Interest Paid	167.50	145.40	112.84	132.87	156.53	221.08
	Total Working Fund	18752.9	24135.38	29660.1	38479.2	45942.53	54609.3
	Ratio %	0.89	0.60	0.38	0.34	0.34	0.40

Sources: Annual Report of NABIL & SCBNL Banks.

APPENDIX - II

Sample calculation of growth ratio of total deposits

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

Where,

D_n = Total Deposits in the n^{th} year

D_0 = Total Deposits in the initial year

g = growth Rate

n = Total number of year

Here,

For SCBNL,

$$D_{2010} = 35183.7$$

$$D_{2005} = 19344.0$$

n = 6 year

Now,

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

$$35183.7 = 19344 (1+g)^{6-1}$$

$$\text{Or, } (1+g)^5 = 35183.7/19344$$

$$\text{Or, } (1+g) = (1.8187)^{1/5}$$

$$\text{Or, } g = 1.1271-1$$

Therefore, g = 0.1271 i.e. 12.71 %

Similarly other growth ratios have been calculated by performing same method which is mentioned above.

APPENDIX-III

Calculation of Correlation coefficient between Deposits and credit & Advances of SCBNL

(Rs. In Millions)

Year	Deposits(X)	Credit & Advance(Y)	XY	X ²	Y ²
2006/07	19344.00	8213.50	29884489.72	74445835.24	11996409.51
2007/08	23050.50	8905.10	13642870.37	24223130.89	768391.60
2008/09	24640.30	10538.10	3794978.57	11101557.61	1297283.03
2009/10	29743.90	13355.00	2972764.96	3138920.89	2815404.34
2010/11	35871.80	13118.60	11387405.06	62403680.16	2077970.30
2011/12	35182.70	15932.20	30681518.73	51991310.25	18106017.85
N=6	$\sum X =$ 167833.2	$\sum Y =$ 70062.50	$\sum XY =$ 92364027.40	$\sum X^2 =$ 227304435.04	$\sum Y^2 =$ 43976976.63

We have,

$$\begin{aligned}\text{Correlation coefficient}(r) &= \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \times \sqrt{N \sum Y^2 - (\sum Y)^2}} \\ &= \frac{6 \times 92364027 - 167833.2 \times 70062.50}{\sqrt{6 \times 227304435.04 - (167833.2)^2} \times \sqrt{6 \times 43976976.63 - (70062.50)^2}} \\ &= 0.92\end{aligned}$$

$$\text{Coefficient of Determination } (r^2) = r \times r = 0.85$$

Again Probable Error of SCBNL,

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} = 0.6745 \times \frac{1 - 0.85}{\sqrt{6}} = 0.06$$

Similarly remaining correlation coefficient can be calculated:

APPENDIX-IV

Sources & Uses of Fund of STANDARD CHARTERED BANK NEPAL LTD.

Rs. in million

Particulars						Mid july
	2006/07	2007/08	2008/0 9	2009/1 0	2010/1 1	2011/12
1 CAPITAL FUND	1278.2	1576.3	1755.3	2117.2	2493.4	3053
a. Paid-up Capital	374.6	374.6	413.3	620.8	932	1398.5
b. Statutory Reserves	749.3	749.3	749.3	826.5	990.3	1195.3
c. Share Premium		0	0	0	0	0
d. Retained Earning		245.2	370.6	504.7	383.3	239.5
e. Others Reserves	37.5	75	74.9	165.2	0	0
f. Exchange Fluctuation Fund	116.8	132.2	147.2	0	187.8	219.7
2 BORROWINGS	43.8	10.2	1190.9	0	300	0
a. NRB		0	400	0	0	0
b. "A"Class Licensed Institution	16.2	10.2	6.5	0	300	0
c. Foreign Banks and Fin. Ins.	27.6	0	784.4	0	0	0
d. Other Financial Ins.	0	0		0	0	0
e. Bonds and Securities						
3 DEPOSITS	19344	23050.5	24640.3	29743.9	35871.8	35182.7
a. Current	4356.3	4681.8	4794.5	6174.6	6202.8	9763.2
Domestic	2360.6	3071.6	2806.9	3855.5	3582.9	4942.5
Foreign	1995.7	1610.2	1987.6	2319.1	2619.9	4820.7
b. Savings	13027.7	14597.5	15244.2	17856	19187.7	12430

Domestic	10733.3	12078.9	12685.8	14580.4	15389.2	10561.3
Foreign	2294.4	2518.6	2558.4	3275.6	3798.5	2019.1
c. Fixed	1416.4	2136.3	3196.5	3301.1	7101.7	9175.1
Domestic	631.9	386.5	413.2	478.5	791.9	3603.1
Foreign	784.5	1749.8	2783.3	2822.6	6309.8	5572
d. Call Deposits	294.9	1125.5	919	1938.2	3001.6	3562.2
e. Others	248.7	509.4	486.1	474	378	251.2
4 Bills Payable	55	55.8	36.2	87.4	72.9	89.2
5 Other Liabilities	1279.9	1442.5	1622.6	1550	1912.4	2113.5
1. Sundry Creditors	116.8	192.6	259.3	253.9	358.4	476.7
2. Loan Loss Provision	277.7	270.4	287.5	245.4	200.9	217.9
3. Interest Suspense a/c	133.5	160.1	240.6	115.5	117.6	136.2
4. Others	751.9	819.4	835.2	935.2	1235.5	1282.7
6 Reconciliation A/c	0	0	0	0	0	0
7 Profit & Loss A/c	757.9	662.5	692.1	814.4	1028.3	1086.8
SOURCES OF FUNDS	22758.8	26797.8	29937.4	34312.9	41678.8	41525.2
1 LIQUID FUNDS	3370.8	3253.5	3996.1	4247.7	6788.5	3598.8
a. Cash Balance	195.4	279.4	378.4	414.9	463.4	509.1
Nepalese Notes & Coins	162.1	243.3	336.4	382.8	416.8	471.6
Foreign Currency	33.3	36.1	42	32.1	46.6	37.5
b. Bank Balance	915.7	996.8	1856.5	1635.3	2673.9	1420.2
1. In Nepal Rastra Bank	692.2	749.8	1613.7	1266.2	1851.2	819.5

Domestic Currency	681	731.8	1592.3	1232.6	1832.8	669.4
Foreign Currency	11.2	18	21.4	33.6	18.4	150.1
2. "A"Class Licensed Institution	15.5	18.6	28.8	49.6	51.3	28.6
Domestic Currency	15.5	18.6	28.8	49.6	51.3	28.6
Foreign Currency	0	0		0	0	0
3. Other Financial Ins.	0	0	0	0	0	0
4. In Foreign banks	208	228.4	214	319.5	771.4	572.1
c. Money at Call	2259.7	1977.3	1761.2	2197.5	3651.2	1669.5
Domestic Currency				0	0	0
Foreign Currency	2259.7	1977.3	1761.2	2197.5	3651.2	1669.5
2 INVESTMENTS	7204.6	8644.9	7115.7	8146.1	10007.3	8540
a. Govt. Securities	7204.6	8644.9	7115.7	8137.6	9998.8	8531.5
b. NRB Bond				0	0	0
c. Govt. Non-Fin. Ins.				8.5	8.5	8.5
d. Other Non-Fin Ins.				0	0	0
e Non Residents				0	0	0
3 SHARE & OTHER INVESTMENT	2499.5	4205.7	6448.3	5756.7	8633.2	11307.5
1. Non Residents	2486.1	4190.3	6403.4	5756.7	8300.1	10844.9
2. Others	13.4	15.4	44.9		333.1	462.6
4 LOANS & ADVANCES	8213.5	8905.1	10538.1	13355	13118.6	15932.2
a. Private Sector	7898.3	8821.9	9596.3	12599	12722.4	15593.5
b. Financial Institutions			566.6	357.3	252.1	244.5
c. Government Organizations	315.2	83.2	375.2	398.7	144.1	94.1

5 BILL PURCHED	313.6	301.2	251.9	609.4	762.1	244.5
a. Domestic Bills Purchased	3	4.5	2.6	1.8	4.9	59
b. Foreign Bills Purchased	235.9	296.7	249.3	607.6	757.2	185.5
c. Import Bills & Imports	74.7	0	0	0	0	0
6 LOANS AGAINST COLLECTED BILLS	0	0	0	0	0	0
a. Against Domestic Bills				0	0	0
b. Against Foreign Bills				0	0	0
7 FIXED ASSETS	394.4	390.7	427.4	440.5	471.5	480.4
8 OTHER ASSETS	754.1	1095.4	1158.3	1755.9	1861.2	1390.3
a. Accrued Interests	266.6	378.4	441.9	293.5	337.6	251.3
Govt. Entp.		14.2	0.6	0	12.7	9.4
Private Sector	266.6	364.2	441.3	293.5	324.9	241.9
b. Staff Loans / Adv.		122.9	146.1	161.8	182.5	185.3
c. Sundry Debtors	94.1	59.5	109	87.6	143.8	310.5
d. Cash In Transit	0	0	0	0	0	0
e. Others	393.4	534.6	461.3	1213	1197.3	643.2
9 Expenses not Written off	8.3	1.3	1.6	1.6	36.4	31.5
10 Non Banking Assets		0	0	0	0	0
11 Reconciliation Account		0	0	0	0	0

12 Profit & Loss A/c		0	0	0	0	0
USES OF FUNDS	22758.8	26797.8	29937.4	34312.9	41678.8	41 525.2

APPENDIX-V

Sources & Uses of Fund of NABIL BANK LTD.

(Rs.Inmillion)

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
1 CAPITAL FUND	1482.4	1657.7	1874.8	2057	2436.2	3129.4
a. Paid-up Capital	491.7	491.7	491.7	689.2	965.7	1449.1
b. Statutory Reserves	743.2	847	975	983.5	1133.5	1340.5
c. Share Premium	0.7	0.1	0.1	0.1	0.1	0.1
d. Retained Earning	29.8	30	33.4	112.4	160.7	103.6
e. Others Reserves	183.1	251.1	330.4	271.8	112.1	160.7
f. Exchange Fluctuation Fund	33.9	37.8	44.2	0	64.1	75.4
2 BORROWINGS	17.1	173.2	882.6	1600	1981.3	374.9
a. NRB	0	0	600	600	0	
b. "A"Class Licensed Inst. Banks	17.1	173.2	282.6	760	1050	74.9
c. Foreign Fin. Ins.	0	0	0	0	631.3	
d. Other Financial Ins.	0	0	0	240	0	
e. Bonds and Securities		0	0	0	300	300

3 DEPOSITS	14586.8	19348.4	23342.4	31915	37348.3	46334.82
a. Current	2843.5	2953.3	3446.1	5365.8	5515.9	7920.66
Domestic	2046.1	2326.5	2603.3	3210	4063.1	6312.7
Foreign	797.4	626.8	842.8	2155.8	1452.8	1608
b. Savings	7026.4	8770.8	10187.4	12160	14620.4	13783.6
Domestic	6114.6	7757	9103.6	10959	12932.8	12739.9
Foreign	911.8	1013.8	1083.8	1201	1687.6	1043.7
c. Fixed	2078.6	3450.2	5435.2	8464.1	8310.7	14711.06
Domestic	1012.9	1105.1	2892.4	5877.2	5568.3	12694.3
Foreign	1065.7	2345.1	2542.8	2586.9	2742.4	2016.8
d. Call Deposits	2341.3	3851.2	3961.6	5563.4	8438.3	9294
e. Others	297	322.9	312.1	361.8	463	625.5
4 Bills Payable	71.3	113.8	94.2	141.9	407.7	101.1
5 Other Liabilities	1639.4	1862.4	2780.8	2014.4	2143.3	2870.92
1. Sundry Creditors	176.9	216.9	478	296.7	491	604.2
2. Loan Loss Provision	392	352.9	356.3	404.6	409.1	752.2
3. Interest Suspense a/c	166.6	145	112.2	132.4	155.9	220.7
4. Others	903.9	1147.6	1834.3	1180.7	1087.4	1293.8
6 Reconciliation A/c	0	0	0	0	0	
7 Profit & Loss A/c	817.9	979.1	685.6	750.4	1624.9	1798.7
SOURCE S OF FUNDS	18614.9	24134.6	29660.4	38478.6	45941.6	54609.83
1 LIQUID FUNDS	1345.2	2365.2	1963.1	4623.5	3925.4	4513.69
a. Cash Balance	146.3	237.8	270.4	511.4	674.4	635.98
Nepalese	132.4	220.1	243.1	485.6	640.9	602.6

Notes & Coins						
Foreign Currency	13.9	17.7	27.3	25.9	33.5	33.4
b. Bank Balance	413.2	392.5	1129.2	2159.7	2698.1	759.6
1. In Nepal	107.3	318.4	1113.2	1829.5	2648.6	545.06
Rastra Bank						
Domestic	85.7	299.1	1100.8	1827.4	2617.4	597.8
Currency						
Foreign	21.6	19.3	12.4	2.1	31.2	-52.7
Currency						
2. "A"Class	26.2	26.9	31.5	23	42	47.4
Licensed Institution						
Domestic Currency	26.2	26.9	31.5	23	42	47.4
Foreign Currency	0	0	-15.5	0	0	0
3. Other Financial	0	0	563.5	0	0	0
Ins.						
4. In Foreign	279.7	47.2	100	307.2	7.5	167.1
banks						
c. Money at Call	785.7	1734.9	463.5	1952.4	552.9	3118.14
Domestic Currency	102.5	670		20	0	1700
Foreign Currency	683.2	1064.9		1932.4	552.9	1418.1
2	2826.8	2372.3	5359.2	4889.6	3978.7	4480
INVESTMENTS						
a. Govt. Securities	2413.9	2297.9	4805.7	4646.9	3706.2	7941.3
b. NRB Bond	0	0	0	0	0	0
c. Govt. Non-Fin.	0	0	0	0	0	0
Ins.						
d. Other Non-Fin	0	0	0	0	0	0
Ins.						
e. Non Residents	412.9	74.4	553.5	242.7	272.4	187
3 SHARE &	1526.5	3802.5	3593.1	5077	6896.3	5483.8
OTHER						
INVESTMENT						
1. Non	1497.9	3711.2	3521.5	4995.2	6734.6	5391.1

Residents						
2.Others	28.6	91.3	71.6	81.8	161.7	92.7
4 LOANS & ADVANCES	11078	13021.3	15657.1	21514.6	27816.6	32902.83
a. Private Sector	11018	12661.3	15199.6	20857.5	27036.9	31995.5
b. Financial Institutions			397.5	596.4	779.2	62.7.3
c. Government Organizations	60	360	60	60.8	0.4	280
5 BILL PURCHED	144.7	218.1	221.2	255.1	180.5	118.05
a. Domestic Bills Purchased	77.2	66.7	63	216.6	83.9	84.8
b. Foreign Bills Purchased	67.5	151.4	158.2	38.6	96.6	33.3
c. Import Bills & Imports	0	0	0	0	0	
6 LOANS AGAINST COLLECTED BILLS	137.6	39.4	24.7	0		8.6
a. Against Domestic Bills	20.4	21	0	0		6.2
b. Against Foreign Bills	117.2	18.4	24.7			2.4
7 FIXED ASSETS	361.2	319.1	289	511.6	636.1	781.2
8 OTHER ASSETS	1194.9	1996.7	2553	1607.1	2508.1	2669.78
a. Accrued Interests	185	288.1	220	224.2	378.3	440.34
Private Sector	185	287.5	220	224.2	378.3	440.34
Govt. Entp.		0.6				
b. Staff Loans /		286.7	335.2	392.2	490.4	526.5

Adv.						
c. Sundry Debtors	126.6	148.7	374.6	2.1	273.7	73.3
d. Cash In Transit						
e. Others	883.3	1273.2	1623.2	988.6	1365.7	1629.6
9 Expenses not Written off						
10 Non Banking Assets						
11 Reconciliation Account						2.1
12 Profit & Loss A/c						
USES OF FUNDS	18614.9	24134.6	29660.4	38478.6	45941.6	54608.39