DEPOSIT AND INVESTMENT PATTERN OF COMMERCIAL BANKS IN NEPAL

Submitted by:

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RECOMMENDATION

This is to certify that the thesis

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Entitled

DEPOSIT AND INVESTMENT PATTERN OF COMMERCIAL BANKS IN NEPAL

(With References to Nepal SBI Bank Limited, Everest Bank Limited, Standard Chartered Bank Limited)

has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the Thesis presented by

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for

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DECLARATION

I hereby declare that the work done in this thesis entitled "Deposit and Investment Pattern of Commercial Banks in Nepal (With References to Nepal SBI Bank Limited, Everest Bank Limited & Standard Chartered Bank Limited)" submitted to Birendra Multiple Campus, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillments of the requirement of the degree of Master of Business studies (M.B.S.) under the supervision and guidance of Mr. Sushil Dahal, Lecturer of Birendra Multiple Campus.

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LIST OF ABBREVIATIONS

ACEFL	: Ace Finance Limited
AD	: Anno Domini
AM	: Arithmetic Mean
ATM	: Automatic Teller Machine
B.S.	: Bikram Sambat
BOK	: Bank of Kathmandu
C.V.	: Coefficient of Variation
CD	: Cash Discount
DSCR	: Debt Service Coverage Ratio
EBL	: Everest Bank Limited
F/Y	: Fiscal Year
HBL	: Himalayan Bank Limited
i.e.	: That is
JVB	: Joint Venture Bank
Ltd.	: Limited
NABIL	: Nepal Arab Bank Limited
NBL	: Nepal Bank Limited
NEPSE	: Nepal Stock Exchange Limited
NRB	: Nepal Rastra Bank
NSBIL	: Nepal SBI Bank Limited
Pvt.	: Private
Rs.	: Rupees
S.D.	: Standard Deviation
SCBNL	: Standard Chartered Bank Nepal Limited
T.U.	: Tribhuvan University
US	: United State

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Bank is an institution that works for making the monetary transactions sound and effective. Banks collects deposits from the depositors and lends it to the people who are seeking credit for their own purposes. Bank accumulates the idle money from the scattered sources and lends it to the various productive sectors in an economy, employment opportunities, economic activities and finally developing the whole economy.

Main objectives of the bank are to mobilize idle resources into productive sectors by collecting the funds from scattered sources. Bank accepts the deposit in numerous forms depending upon the nature of savers and the strategy of the bank itself. Some of the common type of deposits are current deposit, fixed deposit and call deposit. The interest rate of the deposit varies to the different banks as the central bank has fixed freed up the commercial banks to determine the interest rate of their own.

Previously, the increasing amount of liquidity was considered as the major problem in banking sector, whereby, commercial banks were holding about Rs. 326.38 billion. It means the 13% of total deposit are in liquid fund, which is lower than last year of 15% of total deposit. It means the level of fund mobilization is increasing. However, post the NRB circular with regard to the revision of C/D ratio applicable to the banks, a savior liquidity crunch has been witnessed in the market.

In modern age, economic condition is one of the most remarkable distinctions. In this universe, there are a number of countries whose economic condition is very high with per capita income of more than US $ 30,000.00 where there are such countries whose economic condition is very poor with per capita income of less than $200 per annum. Of course, these countries are trying to lift up their economic condition. These countries are suffering from numerous problems. However, recently, significant improvement has been seen in the global economic and financial scenario.

Capital information, considered to be one of the important factors in the economic development leads to increase the size of national output, income and employment solving the problem of inflation, balance of payments and making the economy free from any burden of foreign debts. Domestic capital formation helps in making a country self-sustainable.

“Capital formation was the accumulation of capital profit made by the business community constituted the major part of saving of the community and the savings was assumed to be invested. They thought capital information indeed plays a decisive role in determining the level and growth of national income and economic development” (*American institute of banking, 1972, p: 162*). It seems unquestionable that the insufficient capital accumulation is the more serious limiting factors in developing countries. In the view of many economists, capital occupies the central and strategic position in the process of economic development. It seems unquestionable that the insufficient capital accumulation is the more serious limiting factor in undeveloped countries.

In the view of many economists, capital occupied central and strategic position on the process of economic economy lie in the rapid expansion of the rate of its capital investment. So that it development in an under developed attains a rate of growth of output which exceeds the rate of growth of population by the significant margin only with such a rate of capital investment will the living standard begin to improve in a developing country. In developing countries the rate of saving is quite low and exiting institution are half successive in mobilizing such saving as most people have incomes to low that vertically all current income be spent in marinating a substantial level of consumption.

"For the development of the nation it is required to have enough capital, without adequate capital investment may not be possible, formation of the adequate capital through the financial institution like finance company bank etc is important" (*Encyclopedia 1966. P: 232).*

Generally Bank is an institution, the essential operation of which is to make the monetary transaction possible in a sound and effective way. Bank accepts deposits of money from those who save and lend to those who need credit for some purpose. Bank accumulates idle money from general public by offering attractive or sound interest and lends it to the fund seekers in the economy Investment in fixed assets would be possible where the productivity could grow, employment could be generated and finally national economy could be enhanced. Banks are also found to be involved in a number of agency services of remitting and collecting cash on behalf of its clients by opening bank drafts and letter of credit facility etc.

Besides, the main task of bank is to mobilize idle resources into productive sector by collecting it from scattered sources and generating profit. Banks are facilitates people to carry out their financial transaction in every sector such as organization, industries, agriculture trade and needy people as well. Bank accepts deposits in numerous forms depending upon the nature of savers and banks own product offering strategy. Some of the common deposits are savings, fixed and call deposits etc. the cost of deposits to the banks varied as central bank has freed up the commercial bank to offer the interest rate on their own.

However, it's said that the average cost of deposits for the bank is 4%. Development of nation banking sector of that country is responsible and must be strong. The financial sector like bank is a vast field, which helps in reducing poverty, increase in life style of people, increase employment opportunities and there by developing the society of a country as a whole development of a country depends upon adequate saving and invested in productive sector which is inspect money in consumptions of the necessary items. People who have a lot of money also consume precious goods; people have no idea the investment in productive line. Banks are the main sources which motivate people to save their earnings. Banks collect the saving of people in the form of deposits collection and investment in the productive area. They give the loan to the people; banks mobilize deposit collected from people.

The importance of the banking as the nerve centre of economic development cannot be over emphasized and it is said that which are the need of and great wealth of country has got to be kept very scared just as water of irrigation good banks are for the country's and trade. The

development of country is always measured by its economic development through indices. Therefore every country has given emphasis on uplifting of a country can hardly be carried forward without the assistances of financial institution. They are the indispensable part of the development process. It is the fact that the unorganized financial system leads the country. Therefore, central bank plays a major role and keeping the financial system of a country organized by providing those guidelines and directions.

Recognizing the true fact of developing country," Nepal cannot ignore the importance of commercial banks. Realizing it, HMG of Nepal has been adopted the economy liberalization policy. Due to liberalization policy made by government, the number of bank has been increased and there has tough competition among them" (*Banking and financial statistics, 1997, p: 37).*

1.1.1 Commercial Banking Activities

In the past, bank used to just accept deposits from the savers of money (surplus units of the society) and provide loans to the users of money (deficit units of the society). Savers of money are those units whose earning exceeds expenditure on real assets (land, building, cloth, food etc.) and users of money are those units whose expenditure on real assets exceeds their earnings. In such a situation, deficit units sell their securities IOUs (I OWE YOU) to surplus units. These securities are financial assets. If entire income of a unit matches with investment on real assets, no financial assets are created.

The evolution of Banking can be traced back to the era when the use of metallic coins as the media of exchange of goods and services began.

Storage of metallic coins was a serious problem for the common people. Because of the danger of theft and robbery, people started leaving gold, silver, and metallic coins in the custody of some reputed person i.e. wealthy merchant or a money changer. The custodian had a strong box and other means of safe keeping. He offered this service as a favor for his friends or made a charge for it. The depositor had to go personally to custodian for the withdrawal of his money. But this practice was found to be inconvenient. How did the use of word Bancus become popular? The origin of "Bank" is traced from a Latin word "Bancus" which means a bench. European money-lender and money-changers used to transact their business at benches or tables. They followed the practice of receiving gold and other metals as deposits and issuing receipts. The bench or table used by the trader in money was the symbol of the business of banking or dealing in money. The success or failure in trading was associated with his bench. When a banker failed, his bench used to be destroyed by the people.

The history of the growth of banking in Nepal is not so long in comparison to other developing or developed countries. Like in other countries, goldsmiths, merchants and moneylender were the ancient Bankers of Nepal. Nepal Bank Limited the first bank had a Herculean task of attracting people toward banking sector from pre-dominant moneylenders and of expanding banking services. It was natural that NBL, paid more attention to profit generating business and preferred opening branches at urban centers. Government, however, had onus of stretching banking services to the nook and corner of the country and managing financial system in a proper way.

The major challenge before Nepal Rastra Bank today is to ensure the robust health of financial institution. Accordingly, NRB has been trying to change them and has introduced a host of prudential measures to safeguard the interest to the public. It is said that NRB is yet to do a lot to prove itself as an efficient supervisor. NRB really requires strengthening their policymaking, supervision and inspection mechanism. Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corners of the country.

1.1.2 Brief Profile of Sample Commercial Banks

Nepal SBI Bank Limited

Nepal SBI Bank was established in 2050 B.S. It started its operation on 23rd Ashad 2050. It is an associate of State Bank of India and Nepalese entrepreneurs. Regarding the composition of equity capital, State Bank of India, general public, employee's provident fund and Agricultural Development Bank share: 50%, 30%, 15% and 5% respectively. Under the technical service agreement signed between two banks, State Bank of India has been providing top management service to the bank service. The bank operates with the objective of providing loan to industry, commerce and trade. It also wishes to have public benefited from the various services.

The bank has 19 branches in various parts of the kingdom. Its corporate office is located in Hattisar, Kathmandu and main branch office in Durbar marg, Kathmandu. It has three other branches within the valley-New Road Branch Embass of India Extension Counter (2009/10) and Teku Branch. Fifteen branches outside the valley are in Birgunj, Biratnager,

Bairahawa, Rampur, Birtamod, Sisuwa, Dharan, Janakpur, Narayangarh, Pokhara, Butwal, Nepalgunj, Patan, Syangja and Baglung.

The bank has utilized advanced computerized technique in its operation. The software in the user is 'bancs-2000'developed by Infosys technology, India. The branches within the valley perform their routine works from Monday to Friday i.e. Five days a week.

Performance review of the bank depicts that the total deposits of the bank grew from 3,744.50 million rupees in the fiscal year 2003/04 to 4380 million rupees in 2007/08, recording a moderate growth of 16.97%. During the same period, total loans and advance reached the level of 2,963 million rupees from 2,363 million rupees recording a growth of 25.36%over the previous year. Accordingly, total negative growth of 70.28% the level of investment in government securities.Net profit, during the period declined to 16.70 million rupees from 58.90 million rupees showing the negative growth of 71.58%.

Everest Bank Ltd.

Everest Bank Limited (EBL) was established in 1994 and started its operations with a view and objective of extending professional ideas and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Sector Bank of India having more than 100 years of banking history all over India and is known for its strong systems and procedures and a distinct work culture.

Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations ever since its inception and today it has

established itself as a leading Private Sector Bank of the nation, reckoned as one of the fastest growing of the country.

The bank's paid-up capital has increased to 455 million against the Authorized Capital of 750 million whereas the Core Capital of the bank is around 700 million. The local Nepalese promoters hold 50% stake in the bank's equity, while 20 %of equity is contributed by joint venture partner PNB and remaining 30% is held by the general public.

The bank provides a wide range of banking facilities through a wide network covering all the five regions of the country and over more than 250 reputed correspondent banks across the globe. All the branches in the valley and as also those at important business centers like Biratnagar, Birgunj, Butwal and Bhairahawa are interconnected through Anywhere Branch Banking Systems (ABBS), a facility which enables its customers to do banking transactions from any of these branches irrespective of their having accounts in the other branch.

Being a pioneer in opening a representative office in New Delhi, India, EBL has successfully taken another historical step in the banking history of the country. Our representative office facilitates the remittance of Nepalese workers residing in India by opening their accounts from the identified branches of our joint venture partner, Punjab National Bank, India and also attracts Indian Investment to Nepal.

EBL is playing a pivotal role in arranging remittance of funds to and from India through instant transfer facility in addition to the Drafts Drawing Arrangement with 170 branches of PNB all over India. The bank is also offering Cash Management System for managing the funds of corporate exporting to India by collecting their funds from about 183 locations in

India. EBL, in order to help Nepalese Citizens working abroad, has entered into arrangements with banks and finance companies in different countries which enables quick remittance of funds by the Nepalese Citizens in countries like UAE, Kuwait, Baharain, Qatar, Saudi Arabia, Malaysia, Singapore and UK.

Standard Chartered Bank Nepal Ltd.

Standard Chartered Bank Nepal Limited (SCBNL) 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 that has 75% ownership in the company with 25% shares owned by the Nepalese public. The bank enjoys the status of largest international bank currently operating in Nepal.

Standard Chartered Group employs 30,000 people in over 500 locations in more than 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. It is one of the world most international banks, with a management team comprising of 79 nationalities. The Bank is trusted across its network for its standard of governance and its commitment to making a difference in the communities in which it operates.

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. It has 17 branches and 21 ATMs across the Kingdom and with over 500 local staff, Standard Chartered Bank Nepal Ltd. (2009/10) is in a position to service its customers through a large domestic network. In addition to which the global

network of Standard Chartered Group gives the Bank the unique opportunity to provide truly international banking in Nepal.

1.2 Statement of the Problem

The number of joint venture banks are increasing in response to the economic liberalization polices of the government. Besides joint venture banks are also being registered by Nepalese promoters other institutions offering similar nature of services like development banks, finance companies and co-operative societies are growing in. These institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders and entrepreneurs.

1. What are the practices and growth of deposits, loan and advances of the sample banks?
2. What is the situation of liquidity, profitability and credit riskiness of sample commercial banks?
3. How do the commercial banks manage their assets?
4. What is the effect of deposits, loan and advances to the net profit of sample banks?

1.3 Objectives of the Study

The main strategy of every commercial bank is to establish the better creditability position, which has directly impact the profitability position. Besides, it helps to build positive attitude and perception on customer that helps to make the organizational success in terms of better transaction, better turnover, and better profitability. The main objective of this study is to be examining the deposits and investment pattern of the commercial banks besides that the specific objectives are as follows:

1. To analyze the practices & growth of deposits, loan and advances and investment.
2. To examine the liquidity, assets management, profitability and credit risk of different commercial banks.
3. To find out assets management techniques in sample commercial banks.
4. To evaluate the effects of deposits, loan and advance to net profit of sample commercial banks.

1.4 Significance of the Study

Banking sector is vital sector for economic growth in a country. For the growth and development of this sector, proper management of deposit and investment by considering the return is required. In today's competitive scenario, several macro economic factors such as political, economical, social and technological factors have increased the challenges to the banking sector. Banking sector involves several risks, which need to be handled promptly for the survival and growth. As this research is made mainly to analyze the deposit and investment pattern and their management in reference to NRB directives and measures, it will provide valuable insight to different stakeholders about the major problems of banks and bank's action for its management.

The study is important to know how the banks are utilizing their deposits. The position of the banks under study about loan and advances, investment, deposits and net profit can be determined, which makes clear about their performance and helps in making any kind of decisions regarding these banks. Similarly, the aim of the study is to identify the

deposit and investment pattern. It provides a useful feedback, remedial actions, good planning and takes appropriate decision to the policy makers of the selected banks, governments and the other concerned. Likewise, the research provides required information to the persons such as general readers, decision makers, brokers, traders, stock holders, financial agencies, businessmen and general public and is also useful for teacher and students of the particular subjects and the firms and others those having interest on financial management.

1.5 Limitations of the Study

The study being the partial fulfillment of the master's degree in business studies has following limitations:

- The study covers the analysis of 5 years data only (i.e. FY 2005/06 to 2009/10).
- This study is mainly based on the secondary data. So, the result of this study depends up on the reliability of secondary data.
- This study is limited to the study of only three commercial banks. It does not cover entire banking industry.
- This study does not examine the factor affecting the deposit and investment in other banks.

1.6 Organization of the Study

This study has been divided into five chapters which are as follows:

Chapter I: Introduction

Chapter II: Review of the literature

Chapter III: Research methodology

Chapter IV: Data presentations and analysis

Chapter V: Summary, conclusion and recommendation

First chapter i.e., introduction deals and includes the background of the study, commercial banking activities, brief profile of the sample banks, statement of the problem, objectives of the study, significance of the study, limitations of the study, and organizations of the study.

Second chapter deals with the review of available literature. It includes conceptual framework on deposit and investment pattern. It focuses on review of the related books, journals, articles and previous unpublished Masters Degree thesis etc.

Third chapter explains the research methodology used in the study. It includes research design, population and sampling source of data, method of data analysis and research variables etc.

Fourth chapter, the most important chapter of the study, is the presentation and analysis of data as well as the major findings of the study.

The fifth and the last chapter include the summary of the study, the main conclusion that flows from the study and some suggestions for further improvement and the deposit and investment trend of the related banks.

The bibliography & appendixes will be included at the last of this thesis report.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter is related to review of literature concern with the study. Review of literature begins with the conceptualizations of persisting theories and search of research studies in this topic. It deals with the existing volumes situations of selected or similar topics. It eliminates the duplication of the topics. This chapter consists of parts. The first part deals with the conceptual framework while the second part deals with the review of previous study.

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. 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.

2.1.1 Factors Affecting the Banks Business

1) The directives issued by Nepal Rastra Bank particularly with regard to recognition of interest income, loan loss provisioning and single borrower and group exposure limits are binding guidelines for banks and hence are bound to have impact on the income of the banks in the short run.
2) Funds management has become a challenge for the banks with increasing lack of opportunities for profitable investments.
3) Persistent slackness in economic activities has adversely affected the recovery of investment. Incomes of the banks have been affected by this.
4) Crisis of confidence witnessed in the business community because of the prevailing environment may limit additional lending opportunities to a greater extent.

2.1.2 Functions of Commercial Banks

Banking industry offers a wide range of services encompassing the needs of public of different lifestyles. Hence, different types of banks emerged in the banking industry concentrating on a special sector. This is the age of specialization. Based on functions, banks can be classified as under. The functions of commercial banks are directly related with the people and institution. These are important banks. Its functions are very attractive for people. Although three banks are truly inspired with the

objectives of earning profit, three s are also established, to accelerated common people's economic welfare and facility, to make available loan to the agriculture, industry and commerce and to provide the banking services to the public and the state in Nepal, the commercial banks perform the following functions:

Accept Deposit

Among many functions of the acceptance of deposit is one of them. The banks accepts deposits under three types of account. They are Fixed Deposit, Saving Deposit and Current Deposit Accounts. People can deposit their earned money in one of the above-mentioned three accounts. However, the interest is paid only on saving and fixed deposit accounts. No interest is paid to the Current Deposit Accounts. The customers can withdraw their money from their account according to their need. The s perform the important function of accepting all sorts of deposit. It earns profits by investing that money in another place.

Provide Loan

A bank provides loan to the deserving persons, companies and institutions. A bank is capable to gain benefits in its banking developments by receiving the interest as per law and internal policies. It provides loans in different terms and conditions provides loan by accepting collateral securities of debtors. A bank can flow the loan against a third person guarantee or with the pledge of the third persons property. A bank provides loan on the basic of agreement or deed of loans.

Agency Functions

The used to provide agency function in following ways:

- A bank makes payment after taking commission for the cheques, draft, and bill of exchange presented by the customers.
- A bank, on the request of its customers, transfers the money from one place to another place by Demand Drafts, Fax Transfers or Telegraphic Transfers.
- A bank, on the request of its customers, buys and sells a company's shares and governmental security bonds.
- A bank collects the interest on governmental bond and the profit on share from the company for its customers.
- A bank also pays rent of the house, and income tax etc on behalf of its customers.

2.1.3 General Utility Functions

A discharge the function of general utility also. These functions are as follows:

- If the Central Bank has given the permission to carry out the transaction of foreign currencies, the exchanges the foreign currency earned by his customers.
- Banks issue travelers cheques in the customer’s name and communicate the credit information or notices for his customers.
- Banks provide lockers to its customers for keeping valuable metals, ornaments, and documents safely. The customer keeps one of the keys of lockers with him and the bank is keeping the other. If the customers valuable goods are kept under the banks custody such safe boxes are called safe deposits valve.
- Banks give economic and professional advice to its customers.

- Banks collect important Commercial information and data for his customers.
- Overseas Trading Services

Another function of overseas is trading services for its customer's recognition of overseas trade has led moderns to act specialization in the finance of the foreign trade and some banks in some countries have taken interest in export house and factoring organizations. Assisted by banks affiliated to them in overseas territories, they are able to provide a compressive network of services for foreign banking business, and many transactions can be carried out from start to finish by a home bank or its subsidiary. In the places where banks do not directly represent, by such affiliated undertakes, they have working arrangement with correspondents, so that the banks are in a position to undertake foreign banking business in any part of the world. The banks provide more than just a means for the settlement of debt between trades both at home and abroad.

2.1.4 Information and Other Services

This provides some information and other services to its customers, which is very useful. Some banks produce regular bulletin on trade and economic conditions at home and abroad. In this way, it is possible to establish new avenues of business purpose, confidential opinions on the financial standing of companies, firms, industries at home and overseas. Hence, these types of function of the s are really laudable.

2.1.5 Lending Process

Follows several steps to disburse loan to the borrowers. The lending policies might be different form one bank to another. In general, these steps can be pointed out of follows.

The needy are required to submit an application to the bank along with required documents. The documents required for credit proposal appraisal and processing by banks are as follows:

- Loan application
- Citizenship certificate of applicant
- Firm/ company registration certificate (if self employed)
- Income tax registration certificate (if self employed)
- Authenticated partnership deed in case of partnership firm and memorandum and article of association in case of company
- Attested copy of board resolution in case of company resolved to avail loan and banking facilities form bank against the pledge, hypothecation, and mortgage of fixed property owned by company or property of third party named.
- Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company.
- Feasibility report/scheme (for new project)

Lending appraisal and processing

Basically, appraisal of loan proposal is processing for the analysis of the variability of the scheme proposed. It also helps to assets the actual financial assistance needed to operate the scheme. Carries out loan appraisal on the basis of past performance, future forecast and information available from the documents submitted by aspirant borrowers.

The bank tries to ascertain the following during loan processing:

The cost of estimate us examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specification of machinery should be proper.

- Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.
- The return rates should be adequate like return on investment (ROI), internal rate of return (IRR) and debt service coverage ratio (DSCR).
- The capacity, competency, integrity and commitment of promoters/ partners/ proprietors/ directors/ personnel should be intact.
- SWOT (strength, weakness, opportunity and threat) analysis of the proposed project must give reasonable assurance.

2.2 Review of Books

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

Investment is the employment of funds with the aim of achieving addition income or growth in value. It involves the commitment of resources that have been saved or put away from current consumption in the hope that some benefits will accrue in future. 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.

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

Frank and Reilly (2001), defines "An Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time. Funds are committed, for the expected rate of inflation and also for the uncertainty in the future flow of the fund."

V.K. Bhalla and S.K. Tutesa (1998), defines, "There are basically three concepts of investment:

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."

Jerome B. Chone Edward, D Zinbarg and Arthar Zeiped, define the word investment as "Investment has many factors. It may involve putting money into bond, treasury bills, or notes or common stocks or painting of real estates, or mortgages or oil ventures, or selling short in bear markets. It may involve options, straddles, tights, warrants, convertibles, margin, gold-silver, mutual funds, money market funds, index funds and results in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the able or lucky, the reward may be substantial. For the uninformed the results may be disastrous."

Frank K. Reilly (2001), defines investment in this words, "An investment may be defined the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for

the time. The funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of funds."

From the above definition, it is clear that an investment means to trade a rupee amount today for some expected future stream of payment of benefits that will exceed the current outlay by an amount that will compensate the investor for the time. The funds are committed for the expected changes in prices during the period and for the uncertainty involved in expected future cash flows. Thus, investment is the most important function of s. It is the long-term commitment of the bank in the uncertain and risky environment. It is very challenging task for s. Therefore, a bank has to be very cautious while investing their funds in various sections. The success of the bank depends heavily upon the proper management of its invisible funds.

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

Van Horne (1998), expresses his view as, "Investment policy fixes responsibilities for the investment disposition of the bank’s assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets.

From the above definition, it is clear that the words the investment (Credit) policies of banks are conditioned, to great extend, 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. Investing covers a wide range of activities and refers to

investing money either in securities or mutual funds. More knowledge investors would include other financial assets such as warrants, puts and calls, convertibles securities etc. Investing encompasses very conservative positions and aggressive speculation."

In William F. Sharpe, (2001) saying, "Investment is sacrifice of current dollars for future dollars and time and risk are involved in investment." According to him, sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain. In some cases the element of time pre dominates. In other cases, risk is the dominant attribute etc.

According to I. M. Pandey (1995), "Investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, the investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder's fund maximization. An Investment will add to the entire shareholder's wealth if it yields benefit in excess of the minimum benefit as per the opportunity cost of capital." The decision of investment is very important because it influences the firm's growth in the long run affects. The risk of the firm requires the large amount of funds, which is difficult to make.

A must invest its deposits and other funds to secured, profitable, reliable and marketable sectors, so that it can earn a reasonable profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Investment

policy provides the bank several inputs through which they can handle their investment operation efficiency ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

According to Mr. Shakespeare Baidhya on sound investment policy, "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 provide maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amount of loan that have become un-collectable due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank’s investment policy must be such that it ensures that it is sound and prudent in order to protect public funds.

The word 'Investment' as, Investment is the use of money to earn income or profit. The term also refers to the expenditures of funds for capital goods such as factories, firm, equipment, livestock, and machinery. Capital goods are used to produce other goods or services. Many people invest part of their income for financial gain. Others make investment to protect the purchasing power of their saving against raising prices. Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank, for example, the bank may invest by lending the funds to various business companies. These firms in turn may invest the money in new factories and equipments 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 bond to obtain funds to invest in such projects as the construction of dams, roads, schools etc. All such investments involve a present sacrifice of income to get an expected future benefit. As a result, investments raise a nation's standard of living.

The term economic investment has a rather precise meaning in the literature of economic theory. Typically, it includes net addition to the capital stock of society. By capital stock of society means those goods, which are used in the production of other goods. He says it is goods; societal or aggregate point view. The definition implies that in society there are number of goods which are used to produce other goods and that these means have production that are considered part of the capital stock of society. For a number of reasons, economists also include inventories as part of the capital stock. Thus, a net additions to the capital stock-an investment means an increase in building, equipment, or inventories over the amount of equivalent goods that existed, say, one year ago at the same time.

Further explains that the everyday usage of the terms investment can mean a variety of things, but to the man of the street usually refers to money committed of same sort. He gives an example as, a commitment of buying a new car among a number of new cars is certainly an 'investment'. From an individual's point of view these are in very general and very extended senses of the word since no rate of return is involved nor is a financial return or capital growth expected.

Financial investment is a form of this general or extended sense of the term. It means an exchange financial claims stocks and bonds, real estate, mortgage etc. The term financial investment is often used by investors to differentiate between the spud-investment concept of the consumer and the real investment of the businessman. He differentiates an investment

between the ticketing and the constructing a new plant, the pawning of watch and the planting a corn.

V.K. Valla (1998), goes ahead mixing the investment with speculation gambling. In addition, he shows the difference between speculations and gambling as; in gambling artificial and unnecessary risk are created whereas in speculation, the risks already existed and the question is simple who shall bear them.

Investment usually involves putting money into an asset, which is not necessarily marketable in other to enjoy a series of return the investment that is expected to yield. On the other hand, speculation is usually a short-run phenomenon Speculators tend to buy assets with the expectation of a profit that can be earned from a subsequent price charge and sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future. Speculators, on the other hand, are usually based on the expectation that some change will occur.

2.3 Review of International Literature

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

The importance and benefits of providing service quality are well documented in the academic literature, and business participations strive to design and implements programs to ensure that the customer is satisfied with his/her encounters with a service firm and, in turn, with various dimensions of service quality. However, quality discrepancies and shortfalls are likely to occur, especially when human input is largely responsible for the “Production” and delivery of the offering. The

problem that arises for organizations are what happens when a service shortfall occurs; how can they recover from service failure?

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

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

Banks adopted data envelopment analysis (DEA) in the 1990s as the principal method for assessing bank efficiency. DEA is a linear-programming method initially developed by Charnes et al. (1978) to measure the comparative performance of homogeneous organizations. The objective of DEA was to build an efficiency frontier of inputs and

outputs, where production is maximized under fixed costs or costs are minimized under restricted production.

Using final measures as the primary tools to evaluate lending performance, however, may result in the following problems:

- Final measures used to evaluate final outputs of the lending process cannot predict in advance whether a lending operation may become a problem loan. That is, the final measures cannot reduce the operational risk of lending in advance.
- In general, the period of lending will be long term – a minimum of three or five years. Performance measures of the lending should concentrate on the quality rather than the quantity of the loan. Therefore, when using final measures as indicators of evaluating loan performance, quarterly or yearly measures are not incompatible with regular performance measures.
- A borrower may pay in accordance with the bank's requirements for one period, but in the next period, he or she can violate or breach the agreement. The regular loan performance measure emphasizes cash flow in, but neglects the quality of each lending process, leading to a possibly biased performance measure.

To resolve the problems that can occur when using final measures as performance indicators, we should choose internal performance measures of bank lending activities as the main analytical core for our study for various reasons. First, the internal measures used can evaluate internal outputs of the lending process. Therefore, these measures can prevent problems loans from occurring in the future. Second, the internal measures can be compatible with a bank's regular performance quarterly or yearly measures. Third, the internal measures are based on quality not

quantity, and a quality based measure can prevent a possible bias in measuring banking loan performance.

This research indicates the importance of using internal measures to evaluate lending performance and resolve any problems derived from using final measures. The main purpose is to monitor and access the lending performance accurately and reduce probability of overdue loans and bad loans.

Before constructing appropriate internal measures, this techniques utilizes the concept of a value-added approach to analyze the process of lending activities, which are as follows.

1) Analyzing process of lending activities
2) Finding outputs of process of lending activities
3) Finding internal measures of output of lending activities
4) Finding internal sub-measures to improve the correctness of Capacity and Condition
5) Improving performance of banking loan

Then we find proper outputs of each lending activity and construct internal measures of outputs for those lending activities. Among these internal measures, the analysis of a borrower's capacity and condition is the key factor to estimate the probability of the borrower's ability to repay the loan and interest in the future. To improve loan performance, this research builds on internal sub-measures to monitor employees in the lending department.

In this research, a value-added approach uses a competitive strategy and the concept of the value chain developed by Porter (1985). The research has a specific goal; that is, to determine the appropriate internal performance measure for each activity along the route of the lending

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

In order to increase the added value of each lending activity, the lending process is analyzed to find the appropriate internal performance measure for each activity along the lending production process. Schuler and Jackson (1996) revealed three basic types of performance measure criteria: trait-based, behavior-based, and outcome-based. The benefit represents the performance outcome of a lending-related employee, but not the trait, or the behavior. These internal measures are used to monitor and enhance the quality of each lending activity. Consequently, the characteristics of these internal measures become mainly outcome-based and quality-oriented.

Process and work analysis of bank lending activity

The first step of the C&I loan process is the application, which is conducted by a loan officer. This step covers the initial interview and screening of a loan request. Initially, the loan officer obtains as much information as possible about the situation of the borrower, for example, his or her previous credit history, current outstanding loans, and current financial statement. The loan officer gathers company information, including legal status, principal employees, main products or services sold, production techniques employed, important competitors, and directors of the company.

The second step is the credit analysis conducted by the credit department. First, the analyst in the credit department receives the financial information of the borrower gathered by the loan officer; then he or she conducts a comparative and historic analysis of the company's financial data. After finishing the financial comparative analysis, the analyst prepares a recommendation report for the loan officer about whether the loan should be granted, rejected or qualified.

In the third step, the loan officer obtains the credit analysis report and determines whether the report accurately describes the borrowing capacity and characteristics of the borrower. The loan officer then grants the loan with or without considerations of collateral. The loan officer notifies the borrower of his or her decision and proceeds to negotiate loan terms if the loan is to be granted.

When the loan officer and the borrowing company are in agreement, the fourth step is the loan operation. Here it is necessary to prepare primary notes, agreements, collateral or non-collateral agreements. If collateral is required, the amount of collateral and additional collateral documentation are indicated.

In the fifth step, the loan officer obtains the borrower's signatures and receives collateral; then the loan operation is closed and the loan proceeds.

The sixth step is the recording of the loan conducted by the loan operation and credit department staff. A loan operation clerk classifies and codes the loan for entry into the commercial loan system, and he or she reviews the loan for compliance with the bank's loan policies. Finally, the loan operation clerk and credit department staff member file the loan notes, authorization, and receipts in designated files.

The seventh step is loan servicing and administration conducted by a loan operation operator, a loan officer, a credit department staff member, and a financial analyst. The loan operation staff person prepares the loan payment notices to notify the borrower and is responsible for receiving periodic payments. The loan officer makes periodic visits and customer calls to obtain new financial statements from the borrower and provides that information to credit department and reviews the loan for compliance with the loan agreement. A credit department financial analyst also receives and reviews the borrower's periodic financial statements.

In the eighth step, the loan officer may receive periodic delinquency information and need to follow up on this with borrowers. The loan officer also needs to adjust loan terms and conditions as deemed necessary, and to take legal action if non-collectible procedures and foreclosure on the loan are required. After analyzing these lending activities, a value chain of lending activities can be identified, and the rationale for determining how values are created can be determined.

Outputs of bank lending activities

It can be observed from the work analysis in the previous section that the particular process of lending covers eight important activities – application, credit analysis, decision, document preparation, closing, recording, servicing and administration and collection. This study employs the work analysis for activities at each stage of the lending process using with a value-added approach, to find the appropriate outputs.

Internal measures before lending decision

As analyzed above, internal measures are used to monitor and enhance the quality of each lending activity. Hence, the internal measures become

the measures of the value or quality of outputs. The visiting report is the output after the activity of application. The purpose of the visiting report is to help the loan officer understand the borrower's associated problems. The factors for evaluation generally used in this situation are in line with the 6C principles of basic lending. These 6C's are character, capacity, capital, collateral, conditions and control (Rose, 1991), which are also important reference indexes for banks when making a credit analysis to decide whether or not a borrower is worthy of a loan.

Viewed overall, according to the 6C principles, the internal measure for measuring the value or quality of the output at this stage, regarding the visiting report, can be determined by whether the collection of information by the loan officer concerning the 6C's is accurate and complete or not.

By analyzing a borrower's situation using the 6C principles, the comparatively more difficult situations encountered by a loan officer become capacity and condition because in addition to the understanding and analysis of the information about capacity and condition. It is also necessary to determine whether any future changes will affect the financial situation and the loan repaying ability of an enterprise. Therefore, if an excellent, professional loan officer can accurately and completely collect information in these capacity and condition, the value of the visiting report will be high.

When a loan officer completes the visiting report, he or she enters the activity of credit analysis. The primarily outputs of this activity are the financial analysis report and the recommendation report. The credit analyst has to proceed with financial analysis first in accordance with the business financial reports and related documents collected the loan officer, and turn them into relevant financial reports.

At this stage, the internal measure is used to measure the quality of the analysis the loan recommendation report, as prepared by the analyst at the credit department using the 6C information. In other words, a comprehensive description and explanation must be provided regarding how to carry out the analysis and whether to approve object to the loan.

During the analytical process of this stage, there are two difficulties:

1) How to analyze and predict the borrower's recent financial situation and loan repaying ability according to the collected information regarding capacity and condition of the borrower; and
2) How to provide an appropriate recommendation as to the interest rate of the loan, since only good recommendations will cause the bank not to incur a loss
3) Thus, if the associated staff at the credit department can conquer these two difficulties, the value and quality of the financial analysis report and recommendation report can be enhanced.

When the above two reports are complete, they are submitted to the loan officer who proceeds with the decision-making process of the loan. The outputs after entering the third activity, the decision-making, consist of the report of the decision and the final C&I loan terms. When a loan officer proceeds with the lending decision in accordance with the recommendation offered by the credit department, there will be three follow-up circumstances. The first is where both the credit department and loan officer object to the lending. The second is where both approve of the loan. The third is where either entity objects to the lending. If one party objects, the objecting party must explain his or her reasons in the report regarding that decision. Generally speaking, main differences of opinion regarding the loan can arise from different opinions and viewpoints held about the estimation of the future development of the

borrower. Under these circumstances, the internal measure used to measure the outputs at this stage the loan process relates to the quality of the 6C information used in the report of the decision provides an explanation and prediction of the future financial condition of the corporate enterprise seeking the loan.

When both object to the lending, the entire lending process comes to an end and there will be no activity and output at the next stage. On the other hand, when both approve of the loan, the loan officer will notify the borrower and move on to the negotiation of the lending conditions, the next step. The interest rate of the loan is then used as the internal measure for the outputs at this stage. The interest rate is based the estimated risk of a particular borrower, therefore, the higher the lending interest rates after negotiation, the higher the value of the outputs. To avoid the adverse selection problem, i.e. that the higher lending interest rates are associated with higher loan risk, the internal performance measure approach here tries to reduce the asymmetric information between borrower and bank by monitoring the employees and accurately assess the borrower's management capability and its strategic fit.

Internal measures for lending documentation

When the lending is confirmed and related lending terms are negotiated, the stage of document preparation begins. The outputs of this stage are the documents and contracts related to this loan. The internal measure for assessing the outputs refers to the accuracy achieved in the preparation of the loan-related documents and contracts. The purpose here is to avoid differences in the terms of negotiation set down in the relevant documents. After this step, the completed documents and contracts are submitted to the loan officer for processing and signing by the borrower.

Following this exercise, the entire lending process moves to the closing stage.

The output of the closing stage is the received document or collateral. The internal measures here will indicate whether the documents and contracts selected and received are complete, and whether the amount and quality of the collateral conform to the executed decision report. Next, the person in charge needs to submit relevant documents and information to the loan operation and credit department for the recording stage. The important outputs of this stage are the operating files and credit files. The internal measure at this stage is a determination of whether any documents are missing. The bank must be prevented during the document review and loan information stages from inaccurate assessments of the borrower because of incomplete information, as well as inaccurate assessments of the entire lending process at hand, again because of missing documents.

Internal measures for loan review

The pre-operation of the entire loan comes to an end upon the completion of the recording of the lending document. Following this stage is the servicing and administration for lending processes executed by the bank, such as loan review, the most crucial aspect. The main purposes now are to understand the borrowing enterprise and to continue supervising and monitoring for any possible future changes and difficulties that the enterprise may experience. Such administration and monitoring will ensure that the entire lending process will be accomplished successfully.

The output upon the completion of the loan operation is the term report of payment, and the aim of which is to determine regularly all aspects of the borrower's loan payment costs. Thus, the internal measure selected for assessment at this stage is whether and when to make a timely reaction to

any irregular payment by the borrower. In the next stage, the loan officer has to pay regular visits to acquire an understanding of the borrower's current and future situation and collect related information. The output of this stage is the term report after a periodic inspection visit. This collection of information should follow the 6C principles at the application stage and involve a comparison of differences in the corresponding information that was involved at successive stages of the loan process. The internal measure for assessing the output of this stage rests on the accuracy and completeness of the 6C information collected during the periodic inspection process.

After the visits, the report made by the loan officer is submitted to the credit department for financial review and for new or renewed recommendations. Thus, the term report of financial analysis and recommendation become the outputs. The aim is to truly understand whether the borrower's own financial situation and structure have altered and if the originally promised value of collateral differs from later assessments.

Consequently, the internal measure for assessing the output of this stage takes on the nature of the former stage of credit analysis as reference, that is, the quality of the analysis of recommendation report regarding 6C information.

In this stage, the loan officer and credit department staff can still face problem described previously that has been identified, i.e. that either entity objects to the continuing lending. When these two persons in charge recognize that changes in the borrower's current financial situation have occurred and result can be a slump in the entire industrial environment and market, the possibility of collecting the loan back early

must be addressed. Certainly, a wrong decision here will affect the profit earnings of this loan.

When the entire lending process has come to an end, the output of this stage represents the profit earning status of the loan, which is also the final measure of the loan in terms of lending performance assessment.

The researcher concluded that the final measures were mainly used to carry out performance assessment in evaluating bank lending performance. However, these methods usually created problems, such as the incapability of predicting whether a particular lending operation might turn into a problem loan; the inconsistency in the point of timing during performance assessment, the problematic length of time for routine assessment; and the neglecting of internal quality control in the entire lending process.

To prevent such problems, an internal measure approach can be used to monitor the value added at each stage along the vertical chain of lending activity. The internal measure at each stage is the output of the employee's service at each stage. The main concern then becomes the quality of these outputs. Among these measures, the specific internal measures used to evaluate the accuracy of a loan officer's analysis of the borrower's capacity and condition are critical to reducing overdue loans and bad debts.

Such measures are mainly adopted in order to analyze the borrower's strategies and organizational architecture. Considerable research has proved that the borrower's strategies and organizational architecture to be the most important determinants of firm profitability and the firm's ability to repay the banking loan. To this end, we have constructed a comprehensive analytical framework that will improve the accuracy of analyzing a borrower's capacity and condition.

Compared with final measures (DEA, benchmark, and productivity measures), the internal measures proposed in this research are more subjective. Such subjectivity is the characteristic of quality-oriented measure. The best we can do in this research instance is to provide a monitoring direction, not the exact scale of these measures. To implement such internal measure system, suggestions are:

1) To enhance the ability of a lending department to review a borrower's capacity and condition, the bank should provide more training programs in business strategy and organizational management to the employees in the lending department; and
2) To evaluate the job performance of these department employees, banks should select their performance evaluators from those with superior knowledge in business strategies and organizational management.

The major benefit of using an internal measure to monitor the output quality of the employees in a lending department is a reduction in the likelihood of employee moral hazard behaviors. This reduction in turn would ease the lending operational risk, one of the main purposes of Basel II. To cope with employee fraud, a monitoring system of double checks from upper level managers about the rightness of any loan is a must. However, the asymmetric information between senior manager and the employee in a lending department about the employee's wrong doing always will exist.

To effectively use local knowledge about possible fraud from a particular employee, assigning loan decision rights to teams might effectively prevent individual fraud. The final decision for a loan should be made through consensus or some type of voting mechanism among any team members who have participated in the evaluation process for the loan.

Further study regarding team decision as well as the separation of decision management and control of lending inside a bank organization might be two of the directions future research can take regarding the prevention of employee fraud.

Corsby, Nick French and Meilanie Ought on (2003), researchers try to find out mortgage lending value in term in Europe should be based on sustainable values and this recommendation is compared to the current basis used for bank lending valuations mainly market value. According to them, the mortgage lending value shall mean that the value of the properly as determined by a valuer making a product assessment of the future marketability of the property by taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of property. Speculative elements shall not be taken into account in the assessment of the mortgage lending value. The mortgage lending value shall be documented in a transparent and clear manner.

In very simplistic term, bank lending falls into two categories, i.e. asset specific and corporate loan. These loans, in turn, can be divided into two further categories of secured and unsecured lending. It is in the case of secured lending that valuations are most directly and commonly used. In unsecured lending valuations are frequently relied on indirectly.

In secured lending, the underlying philosophy has been to determine the value of the assets on which the loan is based and to ensure that the former is greater than the amount borrowed. The degree by which the asset value exceeds the loan provides the margin of assets cover assessed thorough the loan to value ratio. The lender is interested in the position should be the borrower default and have an idea on the amount that the

sale of the property asset would realize were the borrower, lender or receiver to sell the asset.

Another principal use of valuations is for assessments of corporate cash flow projections, used in most forms of lending. Here, the valuation figure and liquidity of assets are of equal importance. The valuations are relied on might be directly commissioned by the lender or could have been produced by the borrower other third parties for other reasons for requiring valuation might include calculations of net asset value, justification for granting the second charge; verification of the borrower's veracity decisions on action following the default of the borrower.

However, the changing influence of different types of information does not seem to have reduce lenders desires for a valuation of the security and a number of initiatives have occurred which attempt to improve the ability of the valuation to under the loan decision. According to their view three main aspects of valuation are

1. Improve the communication between lender and valuer and agree more detailed relevant instructions.
2. Develop new concepts and bases of valuation
3. Improve the quality of information provision in valuation reporting

They concluded that the problem in valuation is quite straightforward. The banking communities are trying to identify a basis of value to which they can apply a loan value ratio and thus project their loan in the future should the borrower default. A simplistic understanding of value would therefore suggest that the figure provided should be a figure which has a life for the length of the loan. However, this very concept is economically impossible in any market with volatility.

Values can only be snapshots in time. They do not have a shelf life. For this reason European mortgage lending valuation is conceptually and particularly redundant in real estate markets. It appears on the surface to be a solution to the banks requirement for reduced risk property lending. In reality it may indeed transfer that risk by demanding a level of protection to the bank that valuation cannot give. But if values agree to it, then it could be the very to successful negligence claims in the aftermath of poor lending decision. This is because to concept appears to be determination of the virtually certain level of value below which the value will not fall for and indeterminate time into the future.

2.4 Review of National Literature

Thapa (1994), has presented his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing but compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are operating with a nominal profit, the later turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expanses is declining. Because of these two local banks, in traditional off-balance sheet operations, these banks have not been able to increase their income from commission and discount. On the contrary, they have heavy burden of personnel and administrative overheads. Similarly, due to huge amount of accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign joint venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of bonus to employees and dividends to the shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet operations and efficient personnel management has added to the maximization of their profits.

At the end of this article, he concluded that by its very nature of the public sector, the domestic banks could not compete with the private sector banks. Therefore, only remedy to the problem of these banks, as the government decides, is to hand over the ownership as well as the management of these banks to the private hands.

Pradhan (2003), has said that, "It is true that a business institution. It has to mobilize its fund to economic inevitable sectors to increase income; otherwise, there is no possibility to survive. This is not major subject to increase application of demanding loan, but the major subject is bank's safety investment, which helps to collect it’s all investment with good return. In addition, he said that before distributing loan, bank must ensure investment with good return. In addition, he said that before distributing loan, bank must investigate its client’s project, experience, economic position, markets etc."

Pokharel (2008), has stressed that highest liquidity makes the financial institutions un-bankable by creating unnecessary burden of bearing the cost of capital. He expresses that most of the financial institutions are lying on uneconomic situation due to ineffectiveness of portfolio management on the one hand and deficiencies of efficient modern

management on the other. As for the betterment of the financial possibility in portfolio projects, like health, residential buildings, communications etc.

Pokharel further suggests that banks need to make strong strategy urgently with shifting the money from fixed deposit to saving reducing the interest between deposits and interest spread in both sectors. He highlights that fixed deposit has been increasing in the ratio of 0.44 to 0.95 from 1990 to 1999.

2.5 Review of Unpublished Thesis

Master's degree researches are the important sources of literature review. Master's degree students have completed studies on various aspects of. Several thesis works had been carried out by various students regarding the various aspects of s such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization, capital structure etc. Some of the relevant findings of the research works for the study are presented below:

Khadka (2001), mainly focuses on investment policy in commercial banks and the sample size only one commercial bank, which is Nepal Arab Bank Ltd. Statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Major objectives of the study are as follows:

- To evaluate the liquidity, assets management efficiency and profitability positions related to fund mobilization of NABIL in comparison to other JVBs.
- To discuss fund mobilization and investment policy of NABIL in respect to its fee-based off-balance sheet transaction and to evaluate the growth ratios of loan and advances and total

investment with respective growth rate of the total deposits, and net profit of sample banks.

- To find out the relationship between deposit and total investment, deposit and loans and advances, and net profit and outside assets of sample banks.
- To evaluate the trend of deposit utilization and its projection for next five years in case of NABIL comparing it with that of other JVBs and to suggest and recommend some measures on the banks of comparative fund mobilization and investment policy of NABIL and other JVBs for the improvement of financial performance of NABIL in future.

The research findings and recommendation of the study are as follows:

- The liquidity position of Nabil Bank Limited is comparatively worse than that of other joint venture banks. Nabil Bank has more portions of current assets as loan and advances but less portion as investment on government securities.
- It is also comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation than that of other JVBs.
- In the case of profitability ratio it is found that the profitability position of NABIL is comparatively not better than that of other JVBs. NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit as compared to other JVBs.
- There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between

total deposits and total investment in case of both Nabil Bank Limited and other JVBs.

Tuladhar (2002), mainly focuses on investment policy in commercial banks and the sample size only one commercial bank, which is Standard Chartered Bank Limited. Researcher used different type of statistical tools i.e., mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

- To study the fund mobilization and investment policy with respect to fee-based off-balance sheet transaction and fund-based on-balance sheet.
- To evaluate the liquidity, efficiency of assets management and profitability position.
- To evaluate the growth ratios of loan and advances and total investment with respect to growth rate of total deposit and net profit of sample banks.
- To evaluate trends of deposit utilization toward total investment and loan and advances and its projection for five years.
- To perform empirical study on the customers' view and ideas regarding the existing services and adopted investment policy of the joint venture banks and to provide suggestions and recommendation on the basis of the study.

The research findings and recommendation of the study are as follows:

- The measurement of liquidity has revealed that the mean current ratio of all the three banks under study is not widely varied. All of

them are capable in discharging their current liability by current assets.

- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Limited (HBL) has high volume of saving and fixed deposits as compared to current deposits resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loan and advances to total assets whereas Nabil Bank Limited has the highest due to steady and high volume of loan and advances throughout the study period.
- The ratio of investment to the investment on loan and advances has measured the total portion of investment in total of investment and advances. The mean ratio among the banks has not deviated significantly.
- The loan and advances and investment to deposits ratio has shown that Nabil Bank Limited has deployed the highest proportion of its total deposits in earning activities. This is the indication of fund mobilizing activities Nabil Bank Limited is significantly better.
- The lending in commercial purpose is the highest in case of Nabil Bank Limited and least in case of SCBNL. SCBNL has contribution in service sector lending. It has contributed 24.47% of its total credit in general use and social purpose.
- The total income to total assets ratio measures the earning power of each rupee employed by the bank. Nail’s ratio in this case is the

best. The ratio of total income to total expense reflects the earning capacity of a rupee or expense. The productivity of expenses in SCBNL is the best.

- The performance of SCBNL is significantly better than other two banks under study in case of profitability. EPS is the highest in case of SCBNL.

Thapa (2003), mainly focuses on comparative study investment policy in commercial banks and the sample size is Nepal Bangladesh Bank Ltd. And other joint venture Banks. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

- To evaluate the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparison to NABIL and NGBL.
- To analyze the relationship between loans and advances total investment with other financial variables of sample banks.
- To examine the fund mobilization and investment policy of NB Bank through off-balance sheet and on-balance sheet activities in comparison to the other two banks.
- To study the various risk in investment and to analyze the deposit utilization trend and its projection for improving the investment policy of NB bank on the basis of the findings of the analysis.

The research findings and recommendation of the study are as follows:

- The liquidity position of NB Bank is comparatively better than that of NABIL and NGBL.

- NB Bank has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratios.
- It has good deposit collections, has made enough loans and advances but it has made the negligible amount of investment in government securities.
- The NB bank is not in better position regarding its on-balance as well as off-balance sheet activities as compared to NABIL and NGBL. It does not seem to follow any definite policy regarding the management of its assets.
- The profitability position of NB Bank is comparatively worse than that of NABIL and NGBL. The bank must maintain its high profit margin for the well being in future.
- NB bank has maintained a high growth rate in comparison to other banks through it is not successful to make enough investment. One can say that the bank is successful in increasing its sources of funds and its mobilization.
- There is significant relationship between deposit and loans and advances and outside asset and net profit of NB bank, NABIL and NGBL. But there is not significant relationship between deposit and investment of NB bank only.
- The position of NB bank in regards to utilization of the fund to earn profit is not better in comparison to NABIL and NGBL.
- NB bank has not provided credit card facility, any branch banking system (ABBS) facilities and web site etc. but these facilities are being provided by the NABIL and NGBL.

- NB bank is not in better position regarding the proportion of fee-based activities to loans and advances as compared to other two banks during the study period. NB bank in terms of recovery of loan is worse in comparison to NABIL and NGBL.

Joshi (2005), focuses on investment policy in commercial banks and the sample size only three commercial banks which are Everest Bank Ltd., Nabil Bank Limited and Bank of Kathmandu Ltd. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

- The liquidity position of EBL is comparatively better than Nabil and BOK. EBL.
- To analysis of assets management ratio or activity ratio.
- To study, loan and advances to total deposit.

The research findings and recommendation of the study are as follows:

- The liquidity position of EBL is comparatively better than Nabil and BOK. EBL. has the highest cash and bank balance to total deposits, cash and bank balance to current assets ratio. Nabil has the lowest liquidity position than that of the two other banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan and advances.
- Form the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to Nabil and BOK. The total investment of EBL is in between as compared to other two banks.

- In the study, loan and advances to total deposit is higher in BOK but total investment to total deposit is higher in Nabil. Investment on shares and debentures to total working fund ratio is higher in BOK. But the coefficient of variation is higher in EBL.
- In analysis of profitability, total interest earned to total outside assets of EBL is lowest between the three banks. But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared banks i.e. Nabil and BOK. From the view point of risk ratio, EBL has higher capital risk but average of credit risk in comparison to Nabil and BOK.

Adhikari (2006), focuses on investment policy of Nepal Industrial Development Corporation. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

- Analysis of fluctuation in the approved and disbursed loan.
- To analysis the role in the industrial development of the country the corporation.

The research findings and recommendation of the study are as follows:

- There is a fluctuation in the approved and disbursed loan.
- Sometimes, the approval amount has gone up but the disbursement has been lowered and vice versa, as well as there is increasing and decreasing trends in the investment pattern year by year.
- In view of the liberal economic policy adopted by HMG and open market competition, the corporation has made its investment policy more flexible and expanded into resources mobilizing sector.

- The corporation has given priority to the project based on indigenous raw materials and man power as well as sought the policy of investing in small hydro-electricity projects.
- In conclusion, it is said that in order to play a more dynamic role in the industrial development of the country the corporation has made plans to increase its paid-up capital, reserve fund and slowly move toward privatization.

Jha (2007), mainly focuses on comparative analysis of financial performance of commercial banks. The sample size only three banks which are NIBL,NGBL AND HBL. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

- To analysis the loan providing system.
- Profitability analysis the selected banks.
- To analysis the earning capacity in average.

The research findings and recommendation of the study are as follows:

- General loan loss provision to total loan in case of Nabil has the highest among NIBL, NGBL and HBL.
- Credit deposit ratio stood the highest at the end of FY 1996/97 of the selected banks.
- NGBL has been investing most of its deposits in foreign investments.
- NGBL has the highest EPS and cash dividend per share in average.
- Nail's other operating income is appeared higher than other banks.

Shakya (2008), focuses on financial analysis of joint venture banks and the sample size only two banks which are NABIL and NGBL. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

- Analysis the cash and bank balance to total deposit ratio.
- Liquidity position of sample banks.
- To analysis the Loans and advances to total deposits ratio.

The research findings and recommendation of the study are as follows:

- The cash and bank balance to total deposit ratio of NABIL Bank Limited is in fluctuating trend whereas the same ratio of NGBL is in decreasing trend.
- NGBL's liquidity position is comparatively better than that of NABIL Bank Limited.
- Loans and advances to total deposits ratio is in fluctuating trend in case of Nabil bank and the same for NGBL is firstly in increasing trend then following the declining trend.

2.6 Research Gap

Investment in different sectors and collecting deposits from various sectors are made on the basis of the directives and circulars of Nepal Rastra Bank as well as the investment guidelines and policy of the concerned commercial banks have to follow these directives and circulars as their own guidelines and policies. Furthermore, their own deposit collection and investment guidelines and policies should be in line with NRB directives and Circulars. So, research gap of the study over the change of time frame is major concern for the researcher and concerned

organization as well as industry as a whole. This study covers the recent financial data, NRB circulars and guidelines than that of previously studies.

The optimum diversification of investment reduces the default risk. It guided to optimum collection of deposits from various sectors. It is the major concern of the stakeholders to know the portfolio of the bank. This study puts its effort to find out the proportion of investment and deposit collection of bank to different sectors of economy and analyze the diversification of investment as well as collection of deposits.

No case has yet been found on deposits and investment pattern in recent data. The researcher has to define the data in a simple way using simple regression, correlation and hypothesis F-test.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter is related to the research methodology applied in the entire aspect of the study. Research methodology is a research tool which is used to test the hypothesis and to come to a factual conclusion. It refers to the logical sequence of various steps to be adopted by a researcher in studying problems with certain objectives. In other words, research methodology describes the method and process applied in the entire subject of the study. This chapter includes research design, population and sampling, nature and sources of data, analysis of data and tools for analysis.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variance. Research design specifies an outline of plan to be carried out concerning with the proposed research work. The design is in simple form but it covers the main comprehension of the study. The research design show the investment situation of the banks in derived from using five years data from internally generated accounting records maintained by Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. To accomplish this study, the applied design is descriptive and core perspective because the secondary data have been mainly applied for analysis. This research has been done to analyze the patterns of deposit and investment based on historical data and information, so most of the data and information of the study are related with past phenomena of the performance.

This research is the arrangement of conceived so as to obtain the answers to research question and to control variances. It is the arrangement of condition for collection and analysis of data. To achieve the objective of the study, quantitative or analytical based as well as descriptive research design & propose sampling method has been used.

3.2 Population and Sample

There are altogether 31 commercial banks are operating all over the kingdom. Therefore the total numbers of commercial banks are taken as population and out of them three banks under study i.e. Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited are taken as sample.

3.3 Nature and Source of Data Collection

The present study is mainly based on secondary data related with the three banks under study viz. Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. The data related to the investment i.e. loans and advances, deposits and profit/loss are directly obtained from banks annual reports and financial statements of the banks. Likewise, journals, newspapers, periodicals, magazines, annual reports, websites, article and unpublished thesis have been taken as other sources of data during the study.

Based on the requirements and objectives, all the secondary data were compiled, processed and tabulated in time series. In order to judge the reliability of data provided by the banks and other sources, they were complemented with the annual report of the auditor. Formal and informal talks to the concerned head of departments of the banks were also helpful to obtain the additional information of the related problems.

3.4 Methods of Analysis

Several financial and statistical tools are used to analyze the collected data and to achieve the results of the study. The analysis of data will be done according to the pattern of data available because of limited time and resources. Simple analytical and statistical tools such as percentage, Karl Pearson's coefficient of correlation, method of least square and test of hypothesis are used in this study. Similarly, some accounting tools such as ratio analysis and trend analysis have also been used for financial analysis. The selective techniques of data analysis have been used according to pattern of available data. Various statistical and financial data have also been taken in this heading.

3.4.1 Financial Tools (Ratio Analysis)

Ratio analysis is the calculation and interpretation of financial ratio to assets and the firm's performance and status. It is the relationship between two accounting figures expressed mathematically.

"Ratio analysis is the main tool of financial statement analysis. Ratio means the numerical quantities relationship between two items or variables. It can be expressed as percentage, fraction or stated comparison between numbers."

Financial ratio is the mathematical relationship between two accounting figures. "Ratio analysis is used to compare a firm's financial performance and status to that of other firms or to itself overtime." From the help of ratio analysis, the quantities judgment can be done regarding financial performance of a firm.

a. Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligation. Liquidity ratios, by establishing a relationship between cash

and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of a company to meet its obligation due to lack of sufficient liquidity, will result in a poor credit worthiness, loss of credit or confidence, or even in legal angles resulting in a closure of the company. Very high degree of liquidity is also harmful. Idle assets earn nothing. The firm's funds will be the necessarily tied in current assets. Therefore, it is necessary to strike a proper balance between profitability and liquidity. It is because high liquidity reduces the profitability. Depending on the special nature of current assets and current liabilities of the Bank, the used ratios are given below:

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

Total deposit consists of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits. This ratio shows the proportion of total deposits held as most liquid assets. High ratios show the strong liquidity position of the bank. But high ratio is not favorable for the bank because it produces adverse effect on profitability due to idleness of high interest bearing funds. This ratio is calculated by dividing cash and bank balances by total deposit. Cash and bank balance include cash in hand, foreign currency cash in hand, cheques and other cash items, balances with domestic Bank and balance held abroad. The total deposits consist of current deposit, saving deposit, fixed deposit, and money at call, short notice and other deposits.

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

- **Investment on Government Securities To Current Assets**

Investment on government securities includes treasury bills, development bonds, saving bonds etc. This ratio can be computed by dividing investment on government securities by current assets. This can be stated as:

$$Inv.on\,Gov.Secu.to\,Current\ Assets = \frac{Investment\,on\,Government\,Securities}{Current\ Assets}$$

- **Loans and Advances to Current Assets**

Total Current this ratio can be computed by dividing loans and advances by current assets. This can be mentioned as:

$$Loan\,and\ Advance\,to\,Current\ Assets = \frac{Loans\,and\ Advances}{Current\ Assets}$$

The numerator consists of loans, advances, cash credit, local and foreign bills purchased and discounted.

b. Assets Management Ratio

Funds of creditors and owners are invested in various assets to generate revenue and profits. The better the management of assets, the larger will be the amount of revenue. Assets management ratios are employed to evaluate the efficiently with which the firm manages and utilizes its assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into revenue. Thus, involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. These ratios can be calculated to evaluate the effectiveness of the assets utilization which is as follows:

- **Total Investment to Total Deposit Ratio**

Total investment consists of investment on government securities, investment on debenture and bonds, shares in subsidiary companies, shares in other companies and other investment. This ratio can be calculated by dividing total investment by total deposit, it can be mentioned as:

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

- **Loans and Advances to Total Deposit Ratio**

This ratio is computed by dividing total loans and advances by total deposit. Loans and advances consist of loans, advances, cash credit, overdrafts, and foreign bills purchased and discounted. The ratio presents the proportion of total deposit invested in loans and advances. High rate means the greater use of deposits for investing in loans and advances but very high ratios may indicate poor liquidity positions and risk in loans. On the contrary, too low ratios may be the cause of idle cash which do not generate any earning.

$$Loan\ and\ Advances\ to\ Total\ Deposit\ Ratio = \frac{Loan\ and\ Advances}{Total\ Deposit}$$

- **Loans and Advances to Total Working Fund Ratio**

This ratio is calculated by dividing loans and advances by total working fund. This can be calculated as:

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

The denominator includes all assets of On-balance sheet items. In other words, this includes current assets, net fixed assets, loans for

development banks and other miscellaneous assets but excludes Off-balance sheet items like letter of credit, letter of guarantee etc.

- **Investment on Government Securities To Total Working Fund Ratio**

This ratio is calculated by dividing investment on government securities by total working fund. This can be stated as:

$$Inv.on\,Gov.Secu.to\,Total\,Working\,Funds = \frac{Investment\,on\,Government\,Securities}{Total\,Working\,Funds}$$

- **Investment on Shares And Debentures To Total Working Fund Ratio**

This ratio can be computed by dividing investment on share and debenture by total working fund. This can be stated as:

$$Inv.on\,Share\,\&\,Debenture\,to\,Total\,Working\,Funds = \frac{Investment\,on\,Share\,\&\,Debenture}{Total\,Working\,Funds}$$

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

c) Profitability Ratio

A company should earn profits to survive and grow over a long period. A profit is the difference between revenues and expense over a period of time (usually one year). Profit is the ultimate output of a company in operation, and it will have no future if it fails to make sufficient profits. Therefore, the financial managers should continuously evaluate the efficiency of the company in terms of profits. The profitability ratios are calculated to measures the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principle regularly in time. Owners want to get a required rate of return

on their investment. This is possible only when the company earns enough profits. Following major types of profitability ratios are used for evaluating the investment and deposit patterns of sample banks:

Return on Total Deposit Ratio:

This ratio is computed by dividing net profit after tax by total deposit. This ratio is used to indicate and make clear about the relation of net profit after tax by the bank with the total deposit accumulated. Higher ratio is the index of strong profitability position. This can be stated as:

$$= \frac{Net\ Profit}{Total\ Deposit}$$

Return on Loans and Advances Ratio

The ratio is calculated by dividing net profit by loans and advances. This can be stated as:

$$= \frac{Net\ Profit}{Loan\ and\ Advances}$$

3.4.2 Statistical Tools

The science of statistics is the methods judging coactive, natural social phenomenon from the results, obtained from the analysis or enumeration or collection of estimates. Statistics is the science which deals with classification and tabulation of numerical facts on the basis of explanation, description and comparison of phenomenon.

Various statistical tools can be used for the analysis the data available to the researcher. These tools are used in research in order to draw the reliable conclusion from the analysis of financial data. Following statistical tools are used for our study purpose:

❖ Arithmetic Mean

Arithmetic mean is given set of observation. It is the sum divided by the number of observation. An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group. As typical of all the values in the group, arithmetic means is a useful tool in statistical analysis.

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

Where,

$\overline{X}$ = Mean of the values

$\sum X$ = Summation of the values

N = No. of Observations

❖ Standard Deviation (SD)

The measurement of the scatter ness of the mass figures in a series about an average is known as dispersion. Amongst all the methods of finding out dispersion, standard deviation is regarded as the best. The standard deviation measures the absolute dispersion. The greater the value of dispersion means greater the value of SD. A small value of standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series. SD is also known as "Root Mean-Square Deviation". Because it is the square root of the arithmetic mean of the squares of the deviation. In this study standard deviation of different ratios are calculated as follows:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (x-\bar{x})^2}{N-1}}$$

❖ Co-efficient of Correlation between different variables

This analysis identifies and interprets the relationship between two or more variables. In case of highly correlated variables, the effect on one

variable may have effect on other correlation variable. Under this topic, Karl Person's Coefficient of Correlation has been used to find out the relationship the following variables:

(i) Co-efficient of correlation between deposit and loan and advances.

(ii) Co-efficient of correlation between deposit and total investment.

This tool analyzes the relationship between these variables and helps the banks to made appropriate policy regarding deposit collection, fund utilization (loans & advances and investment) and maximization of profit. The correlation coefficient (r) between two variables X and Y can be obtained by using following formula:

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

Following general points may be borne in mind, while interpreting an observed value of correlation coefficient.

1. If r=+1 implies that there is perfect positive correlation between the variables.
2. If r=-1, there is perfect negative correlation between the variables.
3. If r=0, the variables are uncorrelated. However r=0 does not imply that the variable are independent.

If r lying between +1 and -1, there are no set guidelines for its interpretation, the maximum, we can conclude that closer the value of r to 0, the less closed is the relationship between them. One should be very careful in interpreting the value of r as it is often misinterpreted.

❖ Regression Analysis

Regression is stepping or returning back to the original position. It is used as a tool of determining the strength of relationship between two

variables. The cause and effects of relationship clearly indicated through regression analysis than by correlation. In other words, regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. There are two types of variables i.e. dependent variables and independent variables. The variables whose value is influenced or to be predicated is called dependent variable whereas the variable which influences the value or used for prediction is called independent variable. Thus regression analysis studies the statistical relationship between the variables. The main objective of regression is to predict or estimate the value of variables corresponding to a given value of independent variables. While regression analysis has been developed to study and measure the statistical relationship between two variables only then the process is known as the simple regression analysis. Regression lines expresses in terms of mathematical relations are known as regression equations. It is the line which gives the best estimates for the value of y for any specified values of X.

Following Variables have been used for simple regression analysis to fulfill the stated objectives of this study.

1. Net Profit (Y) on Total Deposit (X)

2. Net Profit (Y) on Total Investment (X)

3. Total Investment (Y) on Total Deposit (X)

Regression equation of Y on X is given by

$y = a + bx$

Where,

y = dependent variable

x= Independent variable

a = Intercept of the line

b = Slope of the line

The value of the constants 'a' and 'b' can be determined by solving two normal equations (applying principle of method of least squares).

$\Sigma y = na + b\Sigma x$ ii

$\Sigma xy = a\Sigma x + b\Sigma x^2$ iii

❖ Test of Hypothesis (F-test)

Test of hypothesis is a useful tool to know the significance of the parameters. The objectives of this test are to test the significance regarding the parameters of the population on the basis of sample drawn from the population. In this study, F-tests have been used.

Following Hypothesis have been used to test the significant relationship among the financial variables of three banks. The F Ratios are calculated by Excel (PH-Stat) software.

Hypothesis 1

Null Hypothesis (H_0) : $\mu_1 = \mu_2 = \mu_3$, there are no Significant difference among mean ratios of Cash and Bank Balance to Total Deposits of NSBL, EBL & SCBNL.

Alternative Hypothesis (H_1) : $\mu_1 \neq \mu_2 \neq \mu_3$, there is at least mean ratios of Cash and Bank Balance to Total Deposits of NSBL, EBL & SCBNL.

Hypothesis 2

Null Hypothesis (H_0) : $\mu_1 = \mu_2 = \mu_3$, there are no Significant difference among mean ratios of Investment on Government Securities to Current Assets of NSBL, EBL & SCBNL.

Alternative Hypothesis (H_1) : $\mu_1 \neq \mu_2 \neq \mu_3$, there are Significant difference among mean ratios of Investment on Government Securities to Current Assets of NSBL, EBL & SCBNL.

Hypothesis 3

Null Hypothesis (H_0) : $\mu_1 = \mu_2 = \mu_3$, there are no Significant difference among mean ratios of Total Investment to Total Deposit of NSBL, EBL & SCBNL.

Alternative Hypothesis (H_1) : $\mu_1 \neq \mu_2 \neq \mu_3$, there are Significant difference among mean ratios of Total Investment to Total Deposit of NSBL, EBL & SCBNL.

Hypothesis 4

Null Hypothesis (H_0) : $\mu_1 = \mu_2 = \mu_3$, there are no Significant difference among mean ratios of Investment on Government Securities to Total Working Fund of NSBL, EBL & SCBNL.

Alternative Hypothesis (H_1) : $\mu_1 \neq \mu_2 \neq \mu_3$, there are Significant difference among mean ratios of Investment on Government Securities to Total Working Fund of NSBL, EBL & SCBNL.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter is related to the presentation and analysis of data collected from various secondary sources. This chapter has been divided into two main sections. The first section of the chapter deals with the presentation and analysis of data and second section deals with major findings of the study.

This is an analytical chapter, mainly related to comparison of the investment, deposits, total assets and loans and advances of Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. From the view point of the deposit and investment policies only those ratios are calculated and analyzed which are relevant and important for the study. The ratios are designed and calculated to highlight the relationship between financial items and figures.

4.1 Analysis of Deposits, Loans & Investment Structure

The collection of data from all these banks would have been much more difficult due to the time constraints and unavailability of data. Therefore, the evaluation analysis is done for Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited in detail.

4.1.1 Deposits of Nepal SBI Bank Limited

Table No. 4.1

Deposits of Nepal SBI Bank Limited *(Rs. In Million)*

FY	Current	Saving	Fixed	Call	Other	Total	Growth
2005/06	1408.29	2832.64	6116.17	565.14	79.79	11002.03	
2006/07	1930.43	3274.69	5517.46	624.71	97.98	11445.27	4.03%
2007/08	1738.10	4171.17	6854.88	828.79	122.43	13715.37	19.83%
2008/09	2864.73	5822.29	17438.40	1645.26	186.52	27957.20	103.84%
2009/10	2861.87	7348.97	22148.95	2413.54	123	34896.33	24.82%
Average	2160.68	4689.95	11615.17	1215.49	121.94	19803.24	
SD	668.03	1875.78	7664.07	797.11	40.38	10939.24	
CV (%)	30.92	40.00	65.98	65.58	33.11	55.24	

Source: Annual Reports of Concern Banks

From the data given in table no. 4.1 above, it is found that the total deposits grew up continuously from the fiscal year (FY) 2005/06, among which the growth for the fiscal year 2008/09 is the highest, the total deposits increased by 103.84% and reach to Rs. 27,957.20 Million more than double of fiscal year 2007/08. However in the next year the growth remain of only 24.82% with respect to last year. The above table shows the deposit of SBI bank is increasing but in fluctuating trend.

The CV of total deposits 55.24% indicates that the total deposit of the bank is also fluctuating.

4.1.2 Deposits, Loans and Investments of Nepal SBI Bank Limited

The table below shows the relationship between deposits, loans and investment of Nepal SBI Bank Limited during the study period.

Table No. 4.2

Deposits, Loans and Investments of Nepal SBI Bank Limited

(Rs. In Million)

Source	2005/6	2006/7	2007/8	2008/9	2009/10
Deposits	11002.03	11445.27	13715.37	27957.20	34896.33
Loans & Advances	8241.45	9460.45	12113.70	15612.05	17963.64
Investments	3610.77	2659.45	3088.88	13286.18	16305.63
Loan to Deposits %	74.91%	82.66%	88.32%	55.84%	51.48%
Investment to Deposit %	32.82%	23.24%	22.52%	47.52%	46.73%
Growth of Investment		-26.35%	16.15%	330.13%	22.73%
Growth of Loan & Advance		14.79%	28.05%	28.88%	15.06%

Source: Annual Reports of Concern Banks

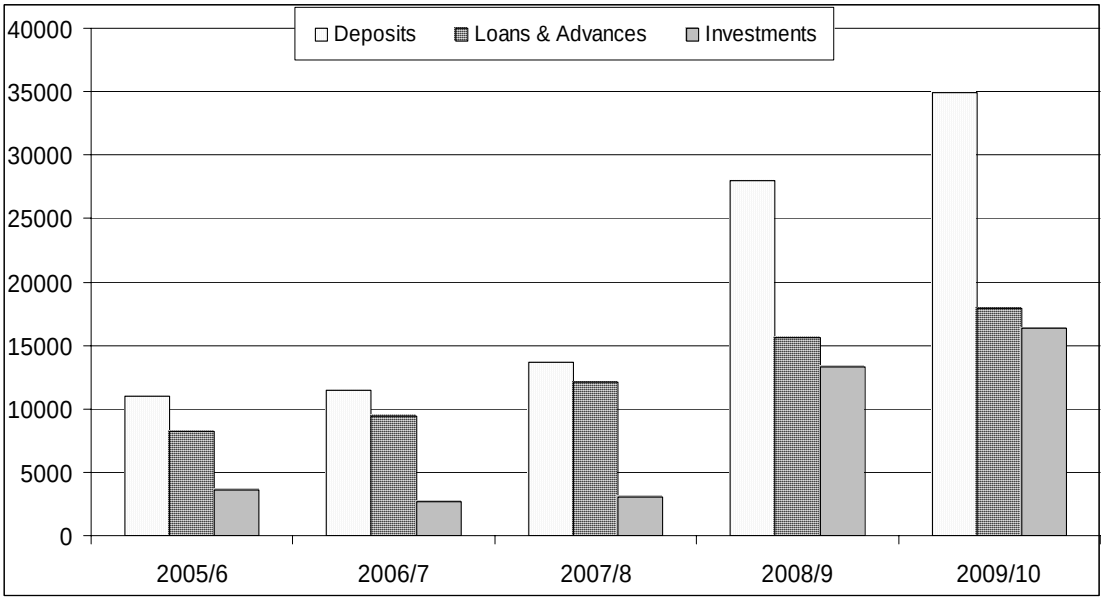
From the above table it is found out that the investment growth rate of Nepal SBI Bank Limited in FY 2006/07 was highly negative i.e. -26.35% but there was a remarkably rise in growth rate in investment of 330.13%% in the FY 2008/09. The investment growth rate is in increasing trend from FY 2006/07 but starts decreasing from the FY 2008/09. This shows the high fluctuation in the investments of the bank during the study period.

Total loan to deposit in 2005/06 noted as 74.91 %, which continuously increase up to 88.32% in 2008/09 then after it declined to 51.48% in the year 2009/10. It may be because of global financial depression occurring in the end of 2008.

The surplus idle money of the bank is invested in other sectors i.e. treasury bills etc. Here, it is clear that when the loan percentages decrease the investments at that particular period increases. The investment was in increasing with increasing in loan and advances. The bank makes it clear in their annual reports that the investing opportunities are reducing, which force them to avoid excess amount of interest bearing deposits.

Figure No. 4.1

Deposits, Loans and Investment of Nepal SBI Bank Limited



Source: Table No. 4.2

The above figure shows the almost continuous growth in deposits, loans and advances and investments of Nepal SBI Bank Limited in different years. However, it also shows the ups and downs of total loan to deposit and total investment to deposits in five years period.

Investment to total deposits percentages is highly fluctuating with ups and down during the study period.

4.1.3 Deposits of Everest Bank Limited

Table No. 4.3

Deposits of Everest Bank Limited *(Rs. In Million)*

FY	Current	Saving	Fixed	Call	Other	Total	Growth
2005/06	1145.79	6929.21	4242.35	1293.29	191.77	13802.41	
2006/07	1673.98	9029.25	5626.66	1573.49	282.85	18186.23	31.76%
2007/08	2492.35	11883.85	6446.18	2780.64	373.26	23976.28	31.84%
2008/09	4859.95	14782.33	7049.98	6294.00	336.68	33322.94	38.98%
2009/10	4173.32	13360.03	10440.27	8412.8	545.86	36932.28	10.83%
Average	2869.08	11196.93	6761.09	4070.84	346.08	25244.03	
SD	1597.23	3198.37	2310.30	3138.92	130.91	9800.69	
CV (%)	55.67	28.56	34.17	77.11	37.83	38.82	

Source: Annual Reports of Concern Banks

From the table given above it is found that in FY 2006/07 the deposits growth rate as 31.76%. The deposit growth remain almost constant till 2008/09 however it reduced to 10.83% in FY 2009/10. The C.V. of call deposit is greater then other deposits. So, it is much fluctuation then other deposits but total deposit is comparatively less fluctuating (38.82%).

4.1.4 Deposits, Loans and Investments of Everest Bank Limited

Table No. 4.4

Deposits, Loans and Investments of EBL *(Rs. In Million)*

Source	2005/6	2006/7	2007/8	2008/9	2009/10
Deposits	13802.41	18186.23	23976.28	33322.94	36932.28
Loans & Advances	10136.20	14082.70	18836.40	24469.60	28156.40
Investments	4200.50	4984.30	5059.60	5948.50	5008.30
Loan to Deposits %	73.44%	77.44%	78.56%	73.43%	76.24%
Investment to Deposit %	30.43%	27.41%	21.10%	17.85%	13.56%
Growth of Investment		18.66%	1.51%	17.57%	-15.81%
% Growth of Loan & Advance		38.93%	33.76%	29.91%	15.07%

Source: Annual Reports of Concern Banks

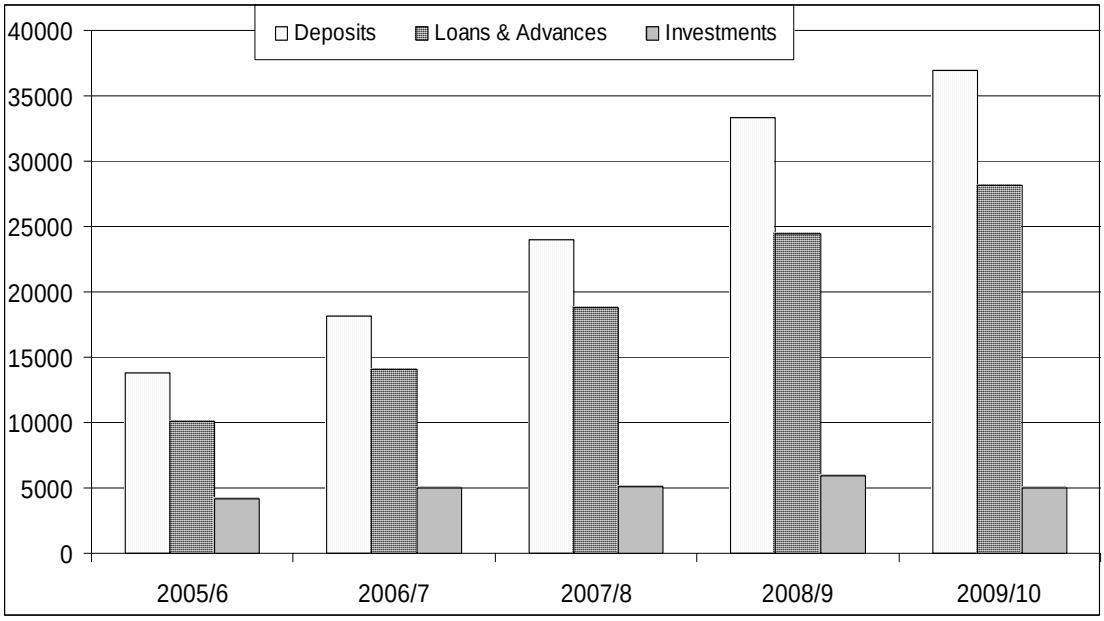
The above table shows that in FY 2005/06, 73.44% of the deposit of the EBL has been disbursed as loan and advances, it slightly increase in each

year till 2007/08 and reached 78.56% however it reduced to 73.43% in the year 2008/09 and again increases slightly next year.

Investments of EBL to the total deposits are noted as 30.43%, 27.41%, 21.1%, 17.85% and 13.56% in the fiscal years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The trend of the investment to deposit is continuously decreasing throughout the study period. The table clearly depicts that increasing investment and reducing loans and advances from total deposits are the great problem for the banks to manage. The fluctuation in total deposits, loan and investments makes clear about the adjustments problem of the bank.

Figure No. 4.2

Deposits, Loans and Investment of EBL



Source: Table No. 4.4

The figure shows how the loans and investments go graphically with total deposits. The loan to deposit rates seems quite increasing during the study period, whereas growth of the investment seems to continuously fluctuating during the study period.

4.1.5 Deposits of Standard Chartered Bank Nepal Limited

Table No. 4.5

Deposits of Standard Chartered Bank Nepal Limited *(Rs. In Million)*

FY	Current	Saving	Fixed	Call	Other	Total	Growth
2005/06	4681.93	14597.67	2136.3	1135.69	509.42	23061.01	
2006/07	4794.53	15244.38	3196.49	925.51	486.1	24647.01	6.88%
2007/08	6174.56	17856.13	3301.01	1938.24	474.04	29743.98	20.68%
2008/09	5752.09	19146.00	7101.69	2973.06	377.96	35350.80	18.85%
2009/10	9763.15	12430	9175.07	3563.24	251.24	35182.70	-0.48%
Average	6233.25	15854.84	4982.11	2107.15	419.75	29597.10	
SD	2071.94	2670.19	3007.77	1144.39	106.69	5734.75	
CV (%)	33.24	16.84	60.37	54.31	25.42	19.38	

Source: Annual Reports of Concern Banks

From the data given in table no. 4.5 above, the deposit growth rate first grew up from 6.88% to 20.68% in between 2006/07 and 2007/08 however after that it reduces to 18.85% and - 0.48% in 2008/09 and 2009/10.

This fluctuating in the deposits continued throughout the study period. Such fluctuation in deposits reduces the long term investing opportunities lead the bank in canvassing of interest bearing deposits, which resulted in the further negative growth rate of deposit. Among the total deposits of the bank, the high interest bearing deposit i.e. the amount of fixed deposits is the least which is a very good sign for the bank as the interest expenses of the bank is very low as compared to other commercial banks of the study which in turn produces huge amount of profit and also allows to grant loans and advances at lower rate being minimum interest expenses.

4.1.6 Deposits, Loans and Investments of SCBNL

The table below shows the relationship between deposits, loans and investment of SCBNL during the study period.

Table No. 4.6

Deposits, Loans and Investments of SCBNL *(Rs. In Million)*

Source	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Deposits	23061.01	24647.01	29743.98	35350.8	35182.7
Loans & Advances	8935.41	10502.63	13718.59	13679.75	15956.95
Investments	12847.53	13552.23	13902.82	20236.12	19847.51
Loan to Deposits %	38.75%	42.61%	46.12%	38.70%	45.35%
Investment to Deposit %	55.71%	54.99%	46.74%	57.24%	56.41%
Growth of Investment		5.49%	2.59%	45.55%	-1.92%
% Growth of Loan & Advance		17.54%	30.62%	-0.28%	16.65%

Source: Annual Reports of Concern Banks

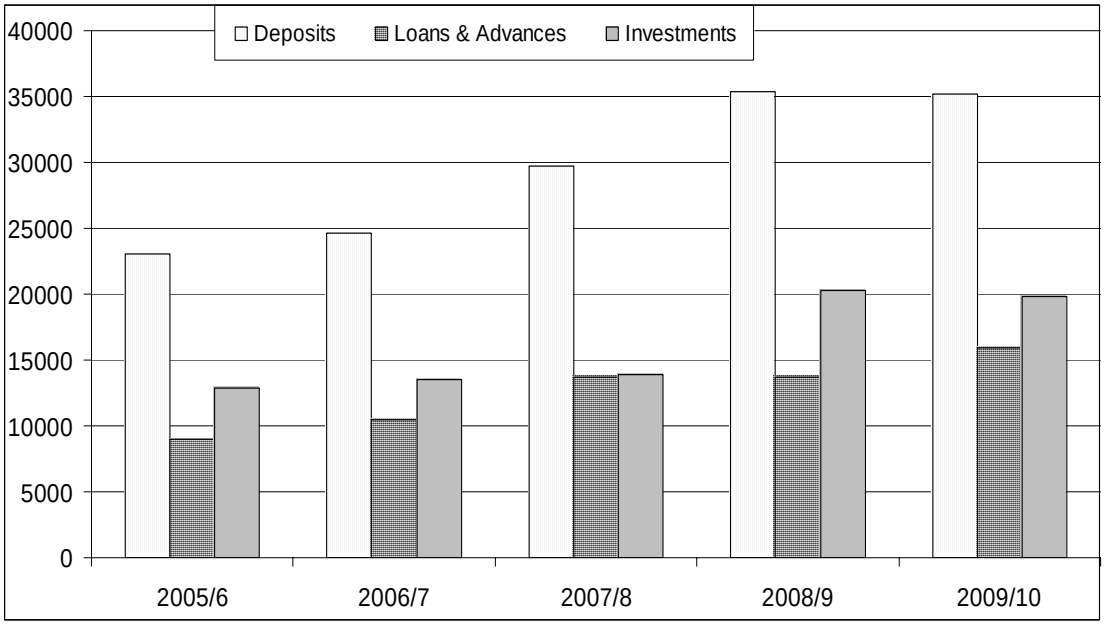
From the above table it is found that the investment growth rate of SCBNL in the FY 2008/09 is the highest during the study period. It has increased up to 45.55%. The next year, the rate goes on negative and came down to -1.92%. This shows the high fluctuation in the investments of the bank during the study period.

The loans and advances have continuously increased during the study period. It has reached Rs. 15,956.95 million at the end of the study period i.e. 2008/09 from 8,935.41 million on 2005/06, almost double.

The surplus idle money of the bank is invested in other sectors i.e. treasury bills etc. Here, it is clear that when the loan percentages decrease the investments at that particular period increases. The bank makes it clear in their annual reports that the investing opportunities are reducing, which force them to avoid excess amount of interest bearing deposits.

Figure No. 4.3

Deposits, Loans and Investment of SCBNL



Source: Table No. 4.6

Above figure shows how the deposits, loans and investments go graphically. It shows the ups and downs of all three parameters in five years period.

In the growth of investment percentage, there is high fluctuation in the whole study period. The loans to deposit percentages, it is almost constant in the study period.

Investment to total deposits percentages is almost constant to FY 2004 to 2009. The investment growth rate shows higher ups and down the study period.

4.2 Ratio Analysis

Financial and statistical analysis is done by calculating some different types of financial and statistical ratios, which are important from the point of view to analyze deposits and loans of NSBL, EBL and SCBNL. Here relevant ratios are calculated and appropriate interpretations are made.

The performance of the concern banks are seen by analysis of financial ratios and all the calculations are done in Microsoft Excel.

4.2.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, withdrawals, pay maturity in time and convert non-cash assets into cash to satisfy immediate needs for the preparation of cash budget but liquidity ratios by establishing a relationship between cash and other current assets to current obligations, which provide a guide measure of liquidity.

4.2.1.1 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio (also called cash reserve ratio) measures the availability of a bank's highly liquid or immediate funds to meet its unanticipated calls on all types of deposits. Cash and bank balance are assets that constitute the bank's first line of defense and consist of cash in hand, foreign currency cash in hand, cherubs and other cash items, balance with domestic banks and balance held abroad.

Higher the ratio, the greater will the ability of the bank to meet sudden demand of deposit. But every high ratio is not desirable since bank has to pay interest on deposits. This will also maximize the cost of fund to the bank.

We have, Cash and bank balance to total deposit ratio =cash and Bank Balance/Total Deposit

Cash and bank balance to total deposit ratio of NSBL, EBL and SCBNL from FY 2005/06 to FY 2009/10 are given below in Table no. 4.7

Table No. 4.7

Cash and Bank Balance (CBB) to Total Deposit (TD)

(Rs. In Million Ratio in %)

Fiscal year	NSBL			EBL			SCBNL		
	CBB	TD	Ratio	CBB	TD	Ratio	CBB	TD	Ratio
2005/6	1118.16	11002.03	10.16	1552.90	13802.41	11.25	1276.24	23061.01	5.53
2006/7	1122.69	11445.27	9.81	2391.30	18186.23	13.15	2021.02	24647.01	8.20
2007/8	1342.96	13715.37	9.79	2667.90	23976.28	11.13	2050.24	29743.98	6.89
2008/9	1176.43	27957.20	4.21	6164.40	33322.94	18.50	3137.16	35350.80	8.87
2009/10	3441.26	34896.33	9.86	7818.8	36932.28	21.17	1929.3	35182.7	5.48
Mean			8.77			15.04			7.00
S.D.			2.55			4.55			1.53
C.V %			29%			30%			22%

Source: Annual Reports of Concern Banks

From the above table, reveals that cash and bank balance to total deposit ratios of all the banks are fluctuating. NSBL has decreasing trend till 2008/09. The ratio increases from 4.21% to 9.86% in FY 2009/10 before which the ratio was continuously decreases from 10.16% in FY 2005/06.

In case of EBL, it is found that cash and bank balance to total deposit ratio is almost same for first three years at around 11 to 13%but in forth year it reached to 18.5% and then in last year it reached to 21.17%. However the ratio for the SCBNL lies in between 5% to 9% throughout the study period. Among three banks EBL has maintained higher ratio throughout the period. The mean ratio of SCBNL is 7%, mean ratio of NSBL is 8.77% and that of EBL is 15.04%. The C.V. % of SCBNL is 22%, which is lower than 30% of EBL and 29% of NSBL. It shows that the cash and bank balance ratio of EBL is more heterogeneous than others.

Comparatively, EBL has maintained highest ratio, it shows that the improvement or execute modification on the better position regarding the

meeting of the demand of its customers on their deposit at any time. That means it operates in higher risks. Through high ratio indicates its high ability but high ratio shows inefficiency, as it has to pay more interest on deposit. Thus, EBL may invest in more productive sectors like short-term marketable security, treasury bills etc. to build up strong and efficient liquidity position.

4.2.1.2 Investment on Government Securities to Current Assets Ratio

The major objective of this ratio is to examine that portion of commercial bank's current assets, which is invested on various government securities issued by government. More or less, each commercial bank is interested to invest their collected fund on different government securities in different times to utilize their excess funds and on for other purpose. The government securities are safest place to invest. But government securities are not so much liquid as cash and bank balance. They can be easily sold in the market and they can be converted into cash in other ways.

The table below shows that all the banks have invested in the government securities throughout the study period. The investment in government securities to current assets ratio of the banks are fluctuating. The ratio of NSBL is in decreasing trend in between FY 2005/06 to 2008/09. It decreased from 27.69% in FY 2005/06 to 16.99%, 17.79%, 11.05% and 11.46% in the following four years.

The table given below shows the investment on Govt. Securities to current asset ratio of NSBL, EBL and SCBNL.

Table No. 4.8

Investment on Government Securities (GS) to Current Asset (CA) Ratio

(Rs. In Million, Ratio in %)

Fiscal year	NSBL			EBL			SCBNL		
	Inv. on GS	CA	Ratio	Inv. on GS	CA	Ratio	Inv. on GS	CA	Ratio
2005/6	3591.77	12969.13	27.69	3548.61	21262.48	16.69	8644.85	25675.03	33.67
2006/7	2345.58	13803.99	16.99	4704.63	15807.19	29.76	7041.17	28471.10	24.73
2007/8	3035.55	17067.22	17.79	4821.59	26788.83	18.00	8083.37	33218.51	24.33
2008/9	3306.57	29912.86	11.05	5146.04	36489.69	14.10	9998.75	39948.03	25.03
2009/10	4313.31	37629.44	11.46	4354.35	40919.67	10.64	8531.52	40298.60	21.17
Mean			17.00			17.84			25.79
S.D.			6.73			7.23			4.67
C.V %			40%			41%			18%

Source: Annual Reports Concern Banks

For EBL, the investment on government securities ratio first increase from 16.69% to 29.76% in 2006/07 and then continuously decreases and reach back to 10.64% in 2009/10. It has rapid fall in last three years. During the study period EBL has maintained the highest ratio of 29.76% in the FY 2006/07.

For SCBNL, the investment on government securities ratios decreases in first year and then remains almost constant for following four years, in between 21% to 25%. The ratio in first year is 33.67% which decreases and came to 21.17% in last year.

Among three banks SCBNL has maintained the highest ratio during whole study period. During the study period SCBNL has maintained the highest ratio of 33.67% in FY 2005/06. In overall the mean ratio of SCBNL is higher than that of EBL and NSBL i.e., 25.79>17.84>17. It means SCBNL has invested as much portion of its current assets in the Govt. Securities. The C.V.% of EBL is more than that of SCBNL and

NSBL i.e. 7.23>6.73>4.67, which means that the variability of ratio of EBL is less homogenous than that of NSBL and SCBNL.

In conclusion, SCBNL has invested more portions of current assets as government securities than EBL and NSBL. Lastly, it is concluded that SCBNL has liquidity portion, from the view point of investment on government securities is slightly poorer.

4.2.1.3 Loans and Advances to Current Assets Ratio

Loans and advances are also included to the current assets of commercial banks became generally it provides short-term loan, advances, overdrafts, cash-credit, local and foreign bill purchased and discounted. To make a high profit mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loans and advances to the customers. If sufficient loans and advances are not granted, it should pay interest on those unutilized fund and may lose some earnings, but high loans & advances may also be harmful to keep the bank in liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan and advances in appropriate level to find out portion of current asset, which is granted as loan and advances.

The table below shows the ratio of loan & advances to current asset ratio of NSBL, EBL and SCBNL.

Table No. 4.9

Loans & Advances to Current Assets Ratio *(Rs. In Million, Ratio in %)*

FY	NSBL			EBL			SCBNL		
	L & A	CA	Ratio	L & A	CA	Ratio	L & A	CA	Ratio
2005/6	8241.45	12969.13	63.55	10136.20	21262.48	47.67	8935.41	25675.03	34.80
2006/7	9460.45	13803.99	68.53	14082.70	15807.19	89.09	10502.63	28471.10	36.89
2007/8	12113.70	17067.22	70.98	18836.40	26788.83	70.31	13718.59	33218.51	41.30
2008/9	15612.05	29912.86	52.19	24469.60	36489.69	67.06	13679.75	39948.03	34.24
2009/10	17963.64	37629.44	47.74	28156.40	40919.67	68.81	15956.95	40298.6	39.60
Mean			60.60			68.59			37.37
S.D.			10.19			14.69			3.04
C.V %			17%			21%			8%

Source: Annual Reports of Concern Banks

The above table shows that loans & advances to current asset ratio of NSBL are in fluctuating trend during the study period. It reached by 70.98% in FY 2007/08 but came back to 47.74% in FY 2009/10, however the ratio was 63.55% during the beginning of the study period. The ratio first increases and then decreases drastically. This shows the high fluctuations in the loans and advances of NSBL.

Similarly, in case of EBL the loan and advances to current asset ratio is much more fluctuating during the study period. The highest ratio of EBL is maintained in to 89.09% in FY 2006/07and the lowest ratio is 47.67% in FY 2005/06. After reaching to the highest point the ratio for EBL decreases and finally reaches to 67.06% in 2008/09, then it slightly increases in last year.

The fluctuation rate is lowest in SCBNL than others. Its highest ratio is 41.3% in FY2007/08 and lowest ratio is 34.24% in FY 2008/09 with the standard deviation of 3.04 only. While examining the mean ratio, SCBNL has maintained lower ratio of 37.37% than that of NSBL and EBL. On the other hand, coefficient of variance of SCBNL is lowest than that of

NSBL and EBL, which indicate that high consistency of SCBNL's ratios in comparison of others.

Finally, it can be said that banks are not poor to mobilize their funds as loan and advances to current asset. The mean ratio of EBL is higher; it reveals that their liquidity position with regard to this ratio is satisfactory.

4.2.2 Assets Management Ratio

Asset management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets properly to make high profit.

4.2.2.1 Loan and Advances to Working Fund Ratio

Loan and advances is an important part of total asset (total working fund). Commercial bank must be very careful in mobilizing in total assets. As loan & advances in appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets loan and advances for the purpose of income generation. A high ratio indicates better in mobilizing of funds as loan and advances and vice versa.

The table below shows the loan and advances to total working fund ratio of NSBL, EBL and SCBNL.

Table No. 4.10

Loan and Advances to Working Fund Ratio *(Rs. In Million, Ratio %)*

Fiscal year	NSBL			EBL			SCBNL		
	L & A	WFR	Ratio	L & A	WFR	Ratio	L & A	WFR	Ratio
2005/6	8241.45	13035.84	63.22	10136.20	21432.57	47.29	8935.41	25776.33	34.67
2006/7	9460.45	13901.20	68.05	14082.70	15959.28	88.24	10502.63	28596.69	36.73
2007/8	12113.70	17187.44	70.48	18836.40	27149.34	69.38	13718.59	33335.78	41.15
2008/9	15612.05	30166.44	51.75	24469.60	36916.85	66.28	13679.75	40066.57	34.14
2009/10	17963.64	38047.68	47.21	28156.40	41382.76	68.04	15956.95	40312.33	39.58
Mean			60.14			67.85			37.25
S.D.			10.20			14.52			3.05
C.V %			17%			21%			8%

Source: Annual Reports of Concern Banks

Referring to the above table, the loan & advances to total working fund ratios of all banks are exhibits fluctuating trend. The ratio of NSBL and EBL are higher than SCBNL. EBL has highest ratio of 88.24% in FY 2006/07 and lowest ratio is of SCBNL 47.29% in FY 2005/06 during the study period.

Similarly, the highest ratio for NSBL is 70.48% in FY 2007/08 and lowest is 47.21% in FY 2009/10. However SCBNL has the comparatively lower rate than NSBL and EBL. It has highest ratio of 41.15% in 2007/08 and the lowest ration in of 34.14% in 2008/09. The entire bank's ratios are continuously fluctuating.

In average, EBL has maintained slightly higher loan and advances to total working fund ratio than NSBL however the difference is much higher in comparison with SCBNL. i.e. 67.85%>60.14%>37.25%. There is no much differences in the position of first two banks. The coefficient of variation of SCBNL is lower than that of NSBL and EBL i.e., 8%<17%<21%. It shows that loan and advances to working fund ratio of SCBNL is more homogeneous than others.

From the above analysis, it is concluded that all the banks have mobilizing working fund, as loan and advances is satisfactory.

4.2.2.2 Investment on Government Securities to Total Working Fund Ratio

All the fund of the bank is never used as loan and advances. A bank mobilizes its fund in various ways. To some extend commercial banks seems to utilize its fund by purchasing Government Securities. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as invest on government securities and vice versa.

Investment on government securities to total working fund ratio of NSBL, EBL and SCBNL from FY 2005/06 to 2009/10 are given in the table below.

Table No. 4.11

Investment on Government Securities to Total Working Fund Ratio

(Rs. In Million, Ratio in %)

Fiscal year	NSBL			EBL			SCBNL		
	Inv. GS	TWF	Ratio	Inv. GS	TWF	Ratio	Inv. GS	TWF	Ratio
2005/6	3591.77	13035.84	27.55	3548.61	21432.57	16.56	8644.85	25776.33	33.54
2006/7	2345.58	13901.20	16.87	4704.63	15959.28	29.48	7041.17	28596.69	24.62
2007/8	3035.55	17187.44	17.66	4821.59	27149.34	17.76	8083.37	33335.78	24.25
2008/9	3306.57	30166.44	10.96	5146.04	36916.85	13.94	9998.75	40066.57	24.96
2009/10	4313.31	38047.68	11.34	4354.35	41382.76	10.52	8531.52	40312.33	21.16
Mean			16.88			17.65			25.71
S.D.			6.71			7.17			4.63
C.V %			40%			41%			18%

Source: Annual Reports of Concern Banks

From the above table, it is observed that investment on government securities to working fund ratio for NSBL was 27.55% in FY 2005/06, which is in decreasing trend and become to 11.34% in FY 2009/10. For EBL, the ratio first increases from 16.56% (2005/06) to 29.48% (2006/07) and then continuously decreases and came down to 10.52% in 2009/10. Similarly SCBNL has the continuous decreasing trend of this ratio and has come down to 21.16% in 2009/10 from 33.54% in 2005/06.

In average, SCBNL has maintained highest mean value among the three banks and EBL has maintained a bit higher than that of NSBL i.e. the ratios are 25.71%>17.65%>16.88%, which indicates that the position of SCBNL is better in this regard. The coefficient of variation for EBL is higher than both banks. The coefficient of variation of EBL is 41%, and that of NSBL and SCBNL are respectively 40% and 18%.

4.2.2.3 Investment on Shares and Debentures to Total Working Fund Ratio

Commercial banks are investing into shares and debentures of other companies. Though, the investment in government securities is relatively safer than investment in shares and debentures of other company. Investment on shares and debentures to total working fund ratio shares to what extent the bank has successfully invested its asset on other company's debentures and shares to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on shares and debentures.

Table No. 4.12

Investment on Shares and Debentures to Total Working Fund (TWF) Ratio

(Rs. In Million, Ratio in %)

Fiscal year	NSBL			EBL			SCBNL		
	Inv. on S & D.	TWF	Ratio	Inv. on S & D.	TWF	Ratio	Inv. on S & D.	TWF	Ratio
2005/6	19.02	13035.84	0.15	19.88	21432.57	0.09	15.34	25776.33	0.06
2006/7	31.93	13901.2	0.23	19.88	15959.28	0.12	44.94	28596.69	0.16
2007/8	32.82	17187.44	0.19	101.15	27149.34	0.37	114.53	33335.78	0.34
2008/9	32.94	30166.44	0.11	102.03	36916.85	0.28	115.41	40066.57	0.29
2009/10	37.02	38047.68	0.10	102.03	41382.76	0.25	115.41	40312.33	0.29
Mean			0.15			0.22			0.23
S.D.			0.06			0.11			0.12
C.V %			36%			51%			51%

Source: Annual Reports of Concern Banks

From the above table it is found that the investment on shares and debentures to total working fund ratios for all the banks are in fluctuating trend. NSBL has the lowest ratio of 0.10% in 2009/10 and highest ratio of 0.23% in 2006/07. The ratio is 0.15%, 0.19% and 0.11% in the FY 2005/06, 2007/08 and 2008/09 respectively. Similarly, for EBL, the highest ratio is 0.37% in 2007/08 and lowest is 0.09% in 2005/6. During the other years it is 0.12%, 0.28% and 0.25% in the FY 2006/07, 2008/09

and 2009/10 respectively. For SCBNL ratio varies from 0.06% to 0.34%. In the first year of the study period i.e. 2005/06, it is 0.06%. Then it increase to 0.16% and 0.34% respectively in the following consecutive two years. Then for the remaining two years 2008/09 and 2009.10 it remains constant for 0.29%.

In average, NSBL has maintained lowest investment on shares and debentures to total working fund ratio and SCBNL has the highest ratio. The coefficient of variation of NSBL is 36% which is comparatively lower than 51% of each EBL and SCBNL. It means NSBL is more stable and consistent than EBL and SCBNL.

4.2.3 Profitability Ratio

The major objective of all commercial banks is to earn profit. Strictly speaking no bank can survive without profit. Profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investments to different kinds. Sufficient profit is most to have good liquidity, grab investment opportunities, expand banking transactions, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for a bank. Profitability ratios measure the efficiency of a bank. Higher the ratio higher will be the efficiency of bank. Following ratios, which are related with profit and fund mobilizing, is only studied under this heading.

4.2.3.1 Return on Loan and Advances Ratio

It measures the earning capacity of a commercial banks on its deposits mobilized on loans and advances. Mostly loan and advances includes loan cash credit, overdraft, demand loans, terms loans, bills purchased and discounted.

The table below shows the return on loans and advances of NSBL, EBL and SCBNL.

Table No. 4.13

Return on Loan & Advances Ratio % *(Rs. In Million)*

FY	NSBL			EBL			SCBNL		
	NP	L &A	Ratio	NP	L &A	Ratio	NP	L &A	Ratio
2005/6	117.00	8241.45	1.42	237.20	10136.2	2.34	658.75	8935.41	7.37
2006/7	254.9	9460.45	2.69	296.40	14082.7	2.10	691.66	10502.63	6.59
2007/8	247.77	12113.70	2.05	451.20	18836.4	2.40	818.92	13718.59	5.97
2008/9	316.37	15612.05	2.03	638.70	24469.6	2.61	1025.11	13679.75	7.49
2009/10	391.74	17963.64	2.18	831.80	28156.4	2.95	1085.87	15956.95	6.80
Mean			2.07			2.48			6.85
S.D.			0.45			0.32			0.62
C.V %			22%			13%			9%

Source: Annual Reports of Concern Banks

The above table clearly shows that the return on loans and advances ratio of NSBL is fluctuating in between 1.42% to 2.69%. There is no consistency during the study period. The return on loan and advances ration in 2005/06 1.42% which drastically increases to 2.69% in 2006/07 and then fall to 2.05% and 2.03% in next two consecutive year. For the last year i.e. 2009/10, it again slightly went up to 2.18%. This analysis depicts that NSBL is facing comparatively more problems in investing their excess funds in profitable loans and advances. Similarly, for EBL the return on loans and advances is highest in the FY 2009/10 of 2.95% and the lowest in the FY 2006/07 of 2.1%. The ratio first decreases from 2.34% (2005/06) to 2.1% (2006/07) and then increases continuously to 2.4%, 2.61% and 2.95% for three consecutive years. This concludes that EBL is also not uniform in maintaining its return from loans and advances.

In case of SCBNL, the return on loans and advances remained in between 5.97% and 7.49% during the study period. It is at the highest point in FY 2008/09 i.e. 7.49% and the lowest point in FY 2007/08 i.e. 5.97%. In other years it lies in between the above mentioned range. It is at 7.37% in the initial year of the study period i.e. 2005/06. It then decreases to 6.59% in 2006/07 and further decreases to 5.97% in 2007/08. Then after it increases to 7.49% and reach the highest. In last year it again decreases to 6.8%.

In average, the mean ratio for SCBNL is more than that of EBL and NSBL i.e.6.85%>2.48%>2.07%. The coefficient of variation of NSBL is more than that of EBL and SCBNL i.e. 22%>13%>9%. This shows that SCBNL's ratios are more consistent and uniform than NSBL and EBL.

4.3 Statistical Analysis

4.3.1 Correlation Analysis

Correlation analysis is the statistical tool that can be use to describe the degree to which one variable is linearly related to another. Often correlation analysis is used in conjunction with regression analysis to measure how well the regression line explains the variation of the dependent variable. Correlation can also be used by itself, however, to measure the degree of association between two variables. Coefficient of correlation is the measure that can be use to describe how well one variable is explained by another. Here in the study, to find out the relationship between deposit and total investment, deposit and loan and advances, this analysis have been used – Karl Pearson's coefficient of correlation.

The co-efficient of correlation between deposit and investment is to measure the degree of relationship between two variables. In correlation

analysis, deposit is independent variable (x) and total investment is variable (y), the purpose of computing co-efficient of correlation is to determine the level of dependency and the direction of the total investment over the deposit.

The following table no. 4.16 shows the co-efficient of correlation between deposits and total investment for NSBL, EBL and SCBNL.

Table No. 4.14

Co-efficient of Correlation

Variables	NSBL	EBL	SCBNL
Deposit & Total Investment	0.9913	0.6977	0.9370
Deposit and Loan & Advances	0.9672	0.9971	0.9236

Source: Calculated by Excel (PH-Stat)

From the above table, it is found that the coefficient of correlation between deposit (independent) and total investment (dependent) variables 'r' is 0.9913 which shows highly positive correlation for NSBL. In case of EBL, coefficient of correlation between deposits and total investment value of 'r' is moderately positive i.e. 0.6977. Likewise, SCBNL has also highly positive relationship between two variables, i.e. 0.9370.

Deposits play a very crucial role in performance of commercial banks and similarly loan and advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (x) and loan & advances are taken as dependent variable (y).

The following table shows the coefficient of correlation between deposit and loan and advances of NSBL, EBL and SCBNL.

From the above table, it is found that the coefficient of correlation between deposits and loan and advances of NSBL is highly positive i.e. 0.9672. In case of EBL, the relationship is even more positive having correlation coefficient 0.9971. Likewise, it is found that the coefficient of correlation between deposit and loan and advances of SCBNL is 0.9236, which also shows the highly positive relationship between two variables.

4.3.2 Regression Analysis

Regression is statistical tools which are used to determine the statistical relationship between two or more variables and so make estimate of one variable on the basis of the other variable. Regression is the line which gives the best estimate of one variable for any given value of the other variable. The regression line of Y on X estimate the most probable value of Y for given values of X.

X is independent variable

Y is dependent variable

The regression equation of Y on X expressed as $Y = a + bX$

Where,

a and b are parameters of the line.

4.3.2.1 Regression Equation of Net Profits on Total Deposits

To find out the exact relationship between different variables simple regressions analysis has been done and results of the analysis have been tabulated.

Table No. 4.15

Regression Equation between Net profits on Total deposits

Banks	Regression Equation	Correlation(r)	F value	Sig. F
NSBL	Y=107.365+0.00799X	0.86	8.7606	0.05955
EBL	Y=-133.407+0.02473X	0.99	105.037	0.00198
SCBNL	Y=-123.597+0.0034X	0.98	93.933	0.00233

Source: Calculate by SPSS

The above table is the collection of major outputs of simple regression analysis of net profit on total deposit. The regression equation of net profit (Y) dependent variable on total deposit(X) independent variable Y = 107.365+0.00799X in NSBL shows if deposit increase by 1 million then net profits will be increase by Rs.7990 only. Moderately positive correlation coefficient (0.8631) also shows the positive relationship. Since the 'F' value (8.7606) is greater than the 'Significance F' (0.0595), the regression model is significant with 95% level of confidence.

Similarly in case of EBL the regression coefficient is positive or in other words one million increases in total deposit leads to Rs. 24,730 increase in net profit. Though the value of constant (a) is negative it is relatively small figure. The coefficient of correlation is highly positive showing the positive relationship between the two variables. Since the 'F' value (105.037) is greater than the 'Significance F' (0.00198), the regression model is significant with 95% level of confidence.

The regression equation of SCBNL contains negative constant (a) and positive coefficient (b). The equation can be described as with increase in one million deposit lead to the increase of Rs. 3400 in net profit. Correlation coefficient reveals that the positive relationship between net profit and total deposit. Since the 'F' value (93.933) is greater than the

'Significance F' (0.00233), the regression model is significant at 0.05 significance level.

4.3.2.2 Regression Equation between Net profits on Total Investment

Table No. 4.16

Regression equation between Net Profit on Total Investment

Banks	Regression equation	Correlation (r)	F value	Sig. F
NSBL	Y=167.9342+0.01253X	0.80	5.4688	0.1013
EBL	Y=-646.987+0.0058X	0.57	1.4348	0.317
SCBNL	Y=369486+0.0509X	0.96	37.44	0.00877

Source: Calculate by SPSS

The above table is the collection of major outputs of simple regression analysis of net Profit on total investment. The regression equations of net profit and total investment in NSBL, is positive, in other words, Constant (a) and coefficient (b) are positive in NSBL. The equation can be described as, one million increase in total investment leads to 0.01253 million increases in net profit. The correlation coefficient also shows the positive relation between two variables. Since the 'F' value (5.4688) is greater than the 'Significance F' (0.1013), the regression model is significant at 0.05 significance level.

Regression coefficient of EBL is also positive though the constant value 'a' negative, the equation can be described as with increase in 1 million total investment, the net profit will be increased by Rs. 5800 only. Here the correlation coefficient is nominally positive (0.5688) which indicates that to calculate the net profit we should also includes some other variable along with the total investment i.e. net profit also depend on other variables. Since the 'F' value (1.4348) is greater than the 'Significance F' (0.317), the regression model is significant at 0.05 significance level.

In the case of SCBNL, Its regression equation is positive as its intercept and slope both are positive. The equation shows that with one million increase in total investment leads the net profit will be increase by Rs. 0.0509 million only. The coefficient of correlation is highly positive indicating the high positive relationship among these two variables. Since the 'F' value (37.44) is greater than the 'Significance F' (0.00877), the regression model is significant at 0.05 significance level.

4.3.2.3 Regression Equation between Total Investment on Total deposits

Table No. 4.17

Regression equation between Total Investments on Total Deposit

Banks	Regression equation	Correlation (r)	F value	Sig. F
NSBL	Y=-3861.13+0.5883X	0.99	170.39	0.00097
EBL	Y=3927.05+0.0441X	0.70	2.8461	0.1902
SCBNL	Y=-1534.29+0.595X	0.94	21.605	0.0188

Source: Calculate by SPSS

The above Table is the collection of major output of simple regression analysis of total investment on total deposit. The regression equation of total investment (Y) dependent variable on total deposit (X) independent variable for NSBL is Y=-3861.13+0.5883X which indicates the positive relationships exists between total investment and total deposit with negative value for the constant 'a'. It can be said that one million increase in total deposit leads to 0.5883 million increases in total investment. The value of constant (a) is negative indicates that at the initial stage just increase in deposit may not able to get the positive investment. The highly positive correlation coefficient indicates that the total deposit and total investment are positively correlated. Since the 'F' value (170.39) is greater than the 'Significance F' (0.00097), the regression model is significant at 0.05 significance level.

Similarly for EBL and SCNBL also, the regression coefficients are positive or in other words one million increases in total deposit leads to increase in average 0.0441 and 0.595 million in total investment respectively. The correlation coefficient is positive which reveals that the positive relationship between total investment and total deposit. Likewise the 'F' value is greater than the 'Significance F' in both cases hence, the regression model is significant at 0.05 significance level.

4.3.3 Test of Hypothesis

To test the significant relationship of mean ratios among three banks, F tests have been used. The value of F ratio is calculated by the Excel (PH-Stat) software.

4.3.3.1 Test of Hypothesis on Cash and Bank Balance to Total Deposits Ratio

Null Hypothesis (H_0) : $\mu_1 = \mu_2 = \mu_3$, there are no Significant difference among mean ratios of Cash and Bank Balance to Total Deposits of NSBL, EBL & SCBNL.

Alternative Hypothesis (H_1) : $\mu_1 \neq \mu_2 \neq \mu_3$, there are Significant difference among at least one pair of mean ratios of Cash and Bank Balance to Total Deposits of NSBL, EBL & SCBNL.

Table No. 4.18

Cash and Bank balance to Total Deposits Ratios

FY	NSBL	EBL	SCBNL
2005/06	10.16	11.25	5.53
2006/07	9.81	13.15	8.2
2007/08	9.79	11.13	6.89
2008/09	4.21	18.5	8.87
2009/10	9.86	21.17	5.48
Total	43.83	75.2	34.97
Mean	8.766	15.04	6.994
F Value	7.2094		
F Critical	4.459		

Source: Calculate by Excel (PH-Stat)

Since, the calculated value of F is 7.2094 and the critical value of F is 4.459 or the calculated value of F is greater than the critical value. It means the null hypothesis is not accepted or there are significant differences among mean ratios of Cash and Bank Balance to Total Deposits of NSBL, EBL & SCBNL.

4.3.3.2 Test of Hypothesis on Investment on Government Securities to Current Assets

Null Hypothesis (H_0) : $\mu_1 = \mu_2 = \mu_3$, there are no Significant difference among mean ratios of Investment on Government Securities to Current Assets of NSBL, EBL & SCBNL.

Alternative Hypothesis (H_1) : $\mu_1 \neq \mu_2 \neq \mu_3$, there are Significant difference among at least one pair of mean ratios of Investment on Government Securities to Current Assets of NSBL, EBL & SCBNL.

Table No. 4.19

Investment on Government Securities to Current Assets Ratios

FY	NSBL	EBL	SCBNL
2005/06	27.69	16.69	33.67
2006/07	16.99	29.76	24.73
2007/08	17.79	18	24.33
2008/09	11.05	14.1	25.03
2009/10	11.46	10.64	2.12
Total	84.98	89.19	109.88
Mean	16.996	17.838	21.976
F Value	0.8138		
F Critical	4.459		

Source: Calculate by Excel (PH-Stat)

Since, the calculated value of F is 0.8138 and the critical value of F is 4.459 or the calculated value of F is less than the critical value. It means the null hypothesis is accepted or there are no significant differences among mean ratios of Investment on Government Securities to Current Assets of NSBL, EBL & SCBNL.

4.3.3.3 Test of Hypothesis on Total Investment to Total Deposits Ratio

Null Hypothesis (H_0) : $\mu_1 = \mu_2 = \mu_3$, there are no Significant difference among mean ratios of Total Investment to Total Deposit of NSBL, EBL & SCBNL.

Alternative Hypothesis (H_1) : $\mu_1 \neq \mu_2 \neq \mu_3$, there are Significant difference among at least one pair of mean ratios of Total Investment to Total Deposit of NSBL, EBL & SCBNL.

Table No. 4.20
Total Investment to Total Deposit Ratios

FY	NSBL	EBL	SCBNL
2005/06	32.82	30.43	55.71
2006/07	23.24	27.41	54.99
2007/08	22.52	21.1	46.74
2008/09	47.52	17.85	57.24
2009/10	46.73	13.56	56.41
Total	172.83	110.35	271.09
Mean	34.566	22.07	54.218
F Value	16.7813		
F Critical	4.459		

Source: Calculate by Excel (PH-Stat)

Since, the calculated value of F is 16.7813 and the critical value of F is 4.459 or the calculated value of F is greater than the critical value. It means the null hypothesis is not accepted or there are significant differences among mean ratios of Total Investment to Total Deposits of NSBL, EBL & SCBNL.

4.3.3.4 Test of Hypothesis on Investment on Government Securities to Total Working Fund Ratio

Null Hypothesis (H_0) : $\mu_1 = \mu_2 = \mu_3$, there are no Significant difference among mean ratios of Investment on Government Securities to Total Working Fund of NSBL, EBL & SCBNL.

Alternative Hypothesis (H_1) : $\mu_1 \neq \mu_2 \neq \mu_3$, there are Significant difference among at least one pair of mean ratios of Investment on Government Securities to Total Working Fund of NSBL, EBL & SCBNL.

Table No. 4.21
Investment on Government Securities to Total Working Fund Ratio

FY	NSBL	EBL	SCBNL
2005/06	27.55	16.56	33.54
2006/07	16.87	29.48	24.62
2007/08	17.66	17.76	24.25
2008/09	10.96	13.94	24.96
2009/10	11.34	10.52	2.12
Total	84.39	88.26	109.48
Mean	16.88	17.65	21.90
F Value	0.8453		
F Critical	4.459		

Source: Calculate by Excel (PH-Stat)

Since, the calculated value of F is 0.8453 and the critical value of F is 4.459 or the calculated value of F is less than the critical value. It means the null hypothesis is accepted or there are no significant differences among mean ratios of Investment on Government Securities to Total Working Fund of NSBL, EBL & SCBNL.

4.4 Major Findings of the Study

The major findings of the study are given below:

- For NSBL, there is an increase of deposit growth rate from 4.03%, 19.83%, 103.84% in 2006/07, 2007/08 and 2008/09 respectively and reach to the maximum point, then after it decline to 24.82% in 2009/10. In aggregate deposits are highly fluctuating during the study period i.e. FY 2005/06 to FY 2009/10. The Standard Deviation and the CV% shows the highly in consistent of the deposits.
- The investment with respect to deposit of NSBL shows the fluctuating trend during the study period. The various ups and downs are seen in investment portfolio of NSBL. The investment first reduces from 32.82% to 23.24% and again to 22.52% in the year 2006/07 and 2007/08 respectively. Then the percentage increase almost double and the investment become 47.52% in 2008/09 and 46.73% in 2009/10. The growth of investment is first negative (-26.35%) and then increases and reach to 330.13% in the FY 2008/09 then again it decreases drastically and came back to 22.73%.
- Loans and advances of NSBL show continuous growth during the initial period of the study. It recorded as 14.79%, 28.05%, 28.88% in FY 2006/07, 2007/08 and 2008/09 respectively. Then after the growth rate decreases to only 15.06% in 2009/10.
- The deposits of EBL has almost constant growth rate of about 31% in the initial period which then increases slightly and reach to 38.98% in FY 2008/09, however reaching to this point it decreases drastically and drop down to 10.83% only in FY 2009/10. The high value of S.D and CV% shows the inconsistent growth of the deposit of EBL.

- The growth rate of the loans and advances of EBL is continuously decreasing from the 2005/06 to the whole study period and reach to the 15.07% from 38.93%.
- There is high fluctuation in the growth rate in the investments of EBL. The growth rate ranges from 18.66% to a negative rate of -15.81%. In the FY 2006/07, the growth rate of investments is the maximum i.e. 18.66% but decreased to 1.51% in the following year which again increases to 17.57% in 2008/09 and then again decreases very steeply to negative growth rate of -15.81% in the FY 2009/10.
- The deposit structure of SCBNL also shows the fluctuating trend during the study period. The growth rate increased in FY 2006/07 from by 6.88% with respect to that of FY 2005/06. It further increases 20.68% in 2007/08 and reach the peak, after which it decrease to 18.85% and then to the negative value -0.48% in 2008/09 and 2009/10 respectively. The standard deviation and CV% also shows the inconsistency on the deposits data of the bank.
- The growth rate in loans and advances of SCBNL shows continuous fluctuation during the study period. It recorded as 17.54% in FY 2006/07. In FY 2007/08, there in a increase in the loans and advances level to 30.62% which then after decreases and resulted a negative growth rate of -0.28% in FY 2008/09. Then after the loan and advances level increased and came back to almost the initial growth rate i.e. 16.65%.
- As loan and advances, the investment of SCBNL highly fluctuating during the study period. The various ups and downs are seen in investment portfolio of SCBNL. The growth rate in investments is

maximum in FY 2008/09 i.e. 45.55% and the minimum in 2009/10, a negative value equal to -1.92%. However before reaching to the maximum level the growth of investment was 5.49% and 2.59% in 2006/07 and 2007/08.

- The mean ratio of cash and bank balance to deposit ratio of EBL is higher than NSBL and SCBNL. It states that the liquidity position of EBL is better in this regard. The ratio of NSBL and SCBNL is almost same. Similarly the ratio of EBL is more variable and less consistent than that of others.
- The mean ratio of investment on government securities to current asset ratio of SCBNL has been found higher than that of EBL and NSBL. However, EBL seems to have more variable ratios than that of SCBNL and NSBL.
- The mean ratio of loan and advances to current asset of EBL is higher than that of SCBNL and NSBL. Likewise ratios are more inconsistent for the EBL with comparison to other two banks.
- The loan and advances to working fund ratio of EBL & NSBL are almost similar and SCBNL is lowest. The inconsistency of the ratio also follows the same trend, i.e. EBL is highly inconsistent and the SCBNL is more consistent.
- The mean ratio of investment on government securities to working fund ratio of SCBNL is greatest among the three banks. On the other hand ratio of SCBNL is less variable than that of NSBL and EBL. The ratio of NSBL is lowest and the ratio of EBL is more fluctuating.
- SCBNL has maintained slightly higher mean ratio of investment on shares and debentures to working fund ratio than EBL, but this

ratio of NSBL is very low then others. The ratio of EBL and SCBNL is highly variable than NSBL.

- The mean ratio of return on loan and advances of SCBNL is higher than that of EBL and NSBL. NSBL has the lowest ratio among three banks. But there is high level of inconsistency in the ratio of NSBL.
- Co-efficient of correlation between deposit and investment of NSBL is higher than EBL and SCBNL. EBL has the lowest correlation.
- All three banks have highly positive relationship between deposits and loan and advances, with coefficient of correlation more than 0.92 for all. Among three EBL has the highest value of 'r' almost equal to 1 i.e. 0.9971.
- The slope of the regression equation of net profit on total deposit is positive. It indicates that with increase in total deposit, net profit will also be increase however the negative intercept (value of constant 'a') of EBL and SCBNL indicates that, to get the net profit positive the total deposit should cross the amount. The ceiling amount can be determine by calculating the value of X by keeping Y equals to zero in its equation. For the total deposit less than this ceiling amount EBL and SCBNL have to bear loss due to negative value of the constant 'a'.
- The regression equation of net profit on total investment is positive for NSBL and SCBNL however for EBL the intercept 'a' is negative and the slope of the equation 'b' is positive. It indicates with increase in total investment leads to increase in net profit of each bank, but for EBL the profit will get positive only after the total investment cross the ceiling amount calculated as described in above bullet.

- The constant ‘b’ in simple regression equation of total investment on total deposits is positive for all three banks. It indicates that with increase in total deposits, total investment will also increase. But the value of constant ‘a’ is negative for NSBL and SCBNL, which reveals that banks are not utilizing all deposits to investments. They diversify deposits in various sector.
- By testing the significance relationship using F test there are significant differences among mean ratios of Cash and Bank Balance to Total Deposits of NSBL, EBL & SCBNL. There are no significant differences among mean ratios of Investment on Government Securities to Current Assets of NSBL, EBL & SCBNL. There are significant differences among mean ratios of Total Investment to Total Deposits of NSBL, EBL & SCBNL. There are no significant differences among mean ratios of Investment on Government Securities to Total Working Fund of NSBL, EBL & SCBNL.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND SUGGESTIONS

5.1 Summary

The deposits and its investment in productive sectors by commercial banks are not stable. They are not earning reliable profits. The increasing deposit are idle in the banks and in turn they are investing these funds in other sectors as government securities at a minimum interest rate while the cost of fund they are bearing more than that, but it is better than nothing for the commercial banks. A decline in overall business market, sluggish performance of industry and slowdown in tourism sector accounted for such a deceleration in the commercial bank activities. Further the financial crunch at the later period of study brings the tremendously difficult time for the bank.

Nepal SBI Bank's deposits increased highly in FY 2008/09 and the deposit level had increased during the study period except in the FY 2009/10, Only the rate has been decrease, the value itself is the 2nd highest among the study period.

Till 2007/08 NSBL was successful in deploying its deposit growth rate to the loan and advance as the ratio for loan and advance to the deposit is high compared to the later period (last two years) when it decreases and reach to 51.48% from 88.32%. This shows that banks are investing their excess fund in other sectors. When loan and advance decreases the investment of the bank increases, this increasing investment and reducing loans and advances from total deposit are great problem for the bank to manage. However in case of EBL and SCBNL, the ratio of loan and advances to the deposit is the constant, i.e. the growth of deposit and the growth and loan and advances are almost in the same trend. Because of

the constant rate of deposit and loan and advance, the ratio of investment to the deposit also remains almost constant for these two bank during the study period.

The fluctuation in deposit, loan and advances & investment makes clear about adjustment problem for the banks. The liquidity position of EBL is better than NSBL and SCBNL. It may be in a good position to meet the daily cash requirement/customer demand but it has to bear high cost of fund. Since SCBNL's investment on government securities is better than NSBL and EBL but higher ratio indicates unstable position of investment. It can be concluded that SCBNL has good deposit collection, has made enough investment on government securities but it has maintained moderate investment policy on loan and advances. SCBNL is comparatively successful in its on-balance sheet as well as off-balance sheet activities. However on the average all of three banks are working equally in this regard.

Correlation analysis shows that there is significant positive relationship between deposit, investment and loan & advances of all three banks. There is no significance difference between deposit and loan and advances and between deposit and investment.

The commercial banks in Nepal are facing the problem in investment in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these banks during the initial period of study however the growth of deposits also decline later in 2009/10 for all banks. This can be described as all banks face acute liquidity problem during this period.

Therefore, these banks should formulate new investment strategies. They should launch the intensive programs to encourage borrowers. The commercial banks should talk to NRB to make clear and new policies

keeping in view the problems that these banks are facing. These banks should take these problems seriously.

5.2 Conclusions

Liberal economic policy of government has encouraged the establishment and growth of commercial banks in the country with in short span of time. In Nepal there are 31 registered commercial banks and branches all over the country. Most of them are newly open during the later period of the study in 2008, 2009 and 2010.

- Most of the commercial banks are widening their networks by opening new branches at various places of the country due to the re-establishment of peace in the nation. The commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors.
- The deposits and its reinvestment in productive sectors by commercial banks are not stable. They are not earning more profit for commercial banks.
- The increasing deposits are idle in the banks and in turn, they are investing these funds in other sectors as government securities at minimal interest rate while the cost of fund they are bearing is far more than that. A decline in overall business market, sluggish performance of industry and slowdown in tourism sector accounted for such a deceleration in the commercial bank activities in the later period 2009/10.
- Nepal SBI bank's and Everest Bank Limited deposits increased highly till 2008/09, which leads to improve banks' policy. Even when the growth of deposit decreases, none of the bank's are able to raise the ratio of loan and advance to the total deposit, i.e. with decrease in deposit the growth of loan and advances also decreases,

hence banks are continuously deploying their excess funds in other sectors.

- SCBNL has the percentage growth in loan and advances and the percentage growth in investment has the negative relationship which shows that when loan and advances decreases bank use the fund in investment and vice versa. However such relationship has not been found in other two banks. Hence the other two banks also have to response the market change as by SCBNL on the fluctuation in deposit and the market availability for the loan and advances.
- The liquidity position of EBL is slightly better than NSBL and SCBNL. It may be in a good position to meet the daily cash requirement but has to bear high cost of fund. Since investment on government securities is better but higher ratio indicates unstable position of investment. It can be concluded that SCBNL has good deposit collection; it has made enough investment on government securities but has maintained moderate investment policy on loan and advances.
- On the average other two banks are working equally in this regard. Risk and profitability analysis shows, there is significant relationship between deposit, investment and loan & advances of all the banks. There is no significance difference between deposit and loan and advances and between deposit and investment of the banks.
- The commercial banks in Nepal are facing the problem of investment in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these banks.

- Strengthening and the institutionalization of the commercial banks are very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors.
- At the same time the series of reforms such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB, diversity scope of activities for commercial banks, professional culture within commercial banks, etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.
- The commercial banks in Nepal must work hard to prove that they are really efficient and viable agencies for mobilization of saving and its canalization into productive sectors, are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

5.3 Suggestions

On the basis of analysis and findings of the study, following suggestions are recommended to improve present fund mobilization and investment strategies of Nepalese commercial banks with regards to NSBL, EBL and SCBNL.

- The liquidity position of the bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks' directives, the lending policies etc. As NSBL and SCBNL have maintained the ratio of

cash and bank balance to total deposit lower than that of EBL, it is recommended that both bank increases cash and bank balance to meet current obligations and loan demand.

- Commercial banks are the profit motive banks; they cannot keep their eyes closed from profit. They should be careful in increasing profit in the real sense to maintain the confidence of shareholders, depositors and its customers. NSBL and EBL's return on loan and advances is lower than SCBNL, so it is strongly recommended to utilize its risky assets and shareholders' fund to gain highest profit margin.
- Though the government securities issued by government are free of risk of default; such securities yield the lowest interest rates of a particular maturity. SCBNL has invested more than EBL and NSBL in government securities so, it is recommended to invest in some profitable sectors like providing loan to developing industries as tourism industry, hydropower and other infrastructure etc.
- The off-balance sheet operation yield high return in terms of commission, discount, fees etc. So, these are very important to the commercial banks. NSBL has been found not in utilizing the modern fee-based off balance sheet activities to the maximum possible extent in comparison to the other banks. So, NSBL is recommended to enhance off-balance sheet transactions in the days to come.
- Portfolio condition of all the banks should examined from time to time and attention should be paid to maintain equilibrium in the portfolio condition as far as possible. The investment opportunities should be grabbed to optimize their investment portfolio. Commercial banks should invest in different projects, finance developing industries like tourism with the help government, which

provides security to them. The commercial banks should go for some new avenues of investment in consortium like hydro-electricity and infrastructure development of the country etc. This will help in the development of economy as well as banks' operation.

- For smooth operation of the bank there must be proportional increase or decrease on credit according to deposit, this can be achieved either by discouraging certain deposit or aggressively marketing its loan able funds to existing or potential customers. Looking at current trend of banking business, a bank must be careful while formulating marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers.
- In the context of commercial banks in Nepal, for speedy development of the Government of Nepal and NRB as well as all the commercial banks are suggested to follow decentralization policy and formulate new plans and policies to develop banks' credit operation like formulating policies regarding investments in small scale industries, tourism industry, hydro-electricity projects etc.
- The various ratios of different banks shows that there are significantly different values in the financial ratios so, the NRB should guide and monitor the commercial banks to maintain the consistency of financial indicator.

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