# CHAPTER – I

# INTRODUCTION

## 1.1 General Background of the Study

### 1.1.1 Investment

Investment has different meanings in finance and economics. Finance investment is putting money into something with the expectation of gain that depends upon thorough analysis, has a high degree of security for the principal amount, as well as security of return, within an expected period of time. Investment is related to saving or deferring consumption. Investment is involved in many areas of the economy, such as business management and finance whether for households, firms, or governments.

According William F. Shape. Gordon J. Alexander and Jeffery V. Baily "Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and its magnitude generally is certain" (Shape Alexander and Baily, 1998: 1).

"Investment in its broadest sense means sacrifice of current rupees for future rupees" it is defined by William F. Sharpe and Alexander J Gordon for the term 'Investment' Therefore, every investment entails some degree of risk.

### 1.1.2 Investment Policy

Investment policy is the proper management of any fund or wealth to maximize value or to obtain this high or favorable return with law risk considering the protection of Invest forms the inflation and other possible harms.  Banks are disbursing their money as investment in trade business and industry. Due to the grown on banking sector in Nepal and huge competition, investment are comparatively losses. Therefore, the banks should follow the principle of investment for profit. An investment policy should ensure maximum profit and minimum Risk. Investment policy determines the investor's objective and the amount of its investable wealth because there is possible relation between risk and return for sensible investment strategies.

Banking sector specially commercial bank play a vital role in the Process of canalizing the available resources in the needed Sectors. Financial system contacts two components i.e. depositary financial institution and non-depository financial institution. Commercial banks are depositary financial institution whereas employed providence fund, development bank insurance companies etc are non depositary financial institutions all the economic activities are directly or indirectly channeled through banks. Banks accept money as a deposit from public and invest it in form of loan and advances. Financial institutions act as an intermediary role between the persons who lend and who borrow. Bank pools the scattered fund and mobilizes them in productive sector .bank came into existence mainly with the objective of collecting the idle Fund, mobiles them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest and deposited amount of depositor.

NRB Directives for Investment Policy

1. Investment on priority sector:-

NRB has pointed priority sector as agriculture sector, cottage and small industry sector, service oriented sector, corporative sector etc. In which the commercial bank must invest 10% of their total deposits. The provision totally based on the objectives for uplifting life style of people in remote and village area.

2. Investment on Co-operative sector (Deprived sector)

Co-operative institutions, rural development banks etc which are licensed by NRB are also to be compulsory invest by commercial bank. In certain ratio determined to joint-venture Banks as per such regulation. JVB's has invested 3% of total outstanding credit of for co-operative sector.

## 1.2 History of Banking in Nepal

The history of banking in Nepal started with the establishment of Nepal Bank ltd, which established in 1994 B.S. The bank is kept under regulation act 2031 B.S. Before the establishment of Nepal Bank Ltd, there were moneylenders, Merchants and the goldsmith providing the banking services to people. With the establishment of Rana’s in Nepal they started “Tejarath Adda” for banking services. Because of the need of the banking services in Nepal, “Nepal Rastra Bank” was established in 2013

B.S. It is the first central bank established with an objective of supervision, protecting and directing the functions of commercial banking activities. After then “Rastriya Banijya Bank” was established in 2022 B.S. to spread banking services to both the rural and the urban areas. It was fully owned by the government when established. The purpose of this bank is not to earn profit but such banks are service – oriented organization. In 2020 B.S. a co-operative bank was established that was later converted into “Agriculture Development Bank” in 2024 B.S. After the restoration of democracy the first elected government in 2048 B.S. adopted liberalized and market oriented economic policies followed by liberalization in the financial sector. These measures included the deregulation of interest rate, free entry of banks and financial institutions removed statutory liquidity ration enactment or new commercial banks, finance company, development bank acts so as to encourage private sectors including foreign banks and financial institutions, development of government shares in financial institution. Since then, various financial institutions that is joint venture banks, domestic commercial banks, development banks, finance companies, cooperatives banks, credit guarantee corporation, employee provident fund, national insurance corporation, Nepal stock exchange have come in to existence to create the financial needs of the country thereby assisting financial development of the country.

Following are the list of the commercial banks in Nepal.

**Table 1.1**

**List of Licensed Commercial Bank as of Mid-April 2012**

| S.N | Commercial Bank | Operation Date (A.D.) | Head Office |
|---|---|---|---|
| 1 | Nepal Bank Limited | 1937/11/15 | Dharmapath, Kathmandu |
| 2 | Rastriya Banijya Bank | 1966/01/23 | Singhadarbarplaza, Kathmandu |
| 3 | NABIL Bank Ltd. | 1984/07/16 | Kantipath, Kathmandu |
| 4 | Nepal Investment Bank Ltd. | 1986/02/27 | Durbar Marg, Kathmandu |
| 5 | Standard Chartered Bank Nepal Ltd. | 1987/01/30 | Naya Baneshwar, Kathmandu |
| 6 | Himalayan Bank Ltd. | 1993/01/18 | Thamel, Kathmandu |
| 7 | Nepal SBI Bank Ltd. | 1993/07/07 | Hattisar , Kathmandu |
| 8 | Nepal Bangladesh Bank Ltd. | 1993/06/05 | Naya Baneshwar, Kathmandu |
| 9 | Everest Bank Ltd. | 1994/10/18 | Lazimpat, Kathmandu |
| 10 | Bank of Kathmandu Ltd. | 1995/03/12 | Kamalidi, Kathmandu |
| 11 | Nepal Credit & Commerce Bank Ltd. | 1996/10/14 | Siddharthanagar, Rupandehi |
| 12 | Lumbini Bank Ltd. | 1998/07/17 | Narayangadh, Chitwan |
| 13 | Nepal Industrial & Commerce Bank Ltd. | 1998/07/21 | Biratnagar, Morang |
| 14 | Machhapuchhre Bank Ltd. | 2000/10/03 | Prithvichowk, Pokhara |
| 15 | Kumari Bank Ltd. | 2001/04/03 | Durbarmarg, Kathmandu |
| 16 | Laxmi Bank Ltd. | 2002/04/03 | Adarshanagar, Birgunj |
| 17 | Siddhartha Bank Ltd. | 2002/12/24 | Hattisar, Kathmandu |
| 18 | Agriculture Development Bank Ltd. | 2006/03/14 | Ramshahapath, Kathmandu |
| 19 | Global Bank Ltd. | 2007/01/02 | Birgunj, Parsa |
| 20 | Citizens Bank International Ltd. | 2007/06/21 | Kamaladi, Kathmandu |
| 21 | Prime commercial Bank Ltd. | 2007/09/24 | New Road, Kathmandu |
| 22 | Bank of Asia Nepal Ltd. | 2007/10/12 | Tripureswor, Kathmandu |
| 23 | Sunrise Bank Ltd. | 2007/10/12 | Gairidhara, Kathmandu |
| 24 | Grand Bank Nepal Ltd. | 2008/05/25 | Kamaladi, Kathmandu |
| 25 | NMB Bank Ltd. | 2008/06/05 | Babarmahal, Kathmandu |
| 26 | KIST Bank Ltd. | 2009/05/07 | Anam Nagar, Kathmandu |
| 27 | Janata Bank Nepal Ltd. | 2010/04/05 | New Baneshwar, Kathmandu |
| 28 | Mega Bank Nepal Ltd. | 2010/07/23 | Kantipath, Kathmandu |
| 29 | Commerz & Trust Bank | 2010/09/20 | Kamaladi, Kathmandu |
| 30 | Civil Bank Ltd. | 2010/11/26 | Kamaladi, Kathmandu |
| 31 | Century Commercial Bank Ltd. | 2011/03/10 | Putalisadak, Kathmandu |
| 32 | Sanima Bank Ltd. | 2012/02/16 | Naxal, Kathmandu |

*Source: www.nrb.org.com*

### 1.3 Commercial and Joint Venture Banks in Nepal

"The joint venture is the joining of the forces between two or more enterprises for the purpose of carrying out a specific operation industrial or commercial investment, production or sale" (Gupta, 1984: 15-24).

JVs are normally formed both inside one's own country and between firms belonging to different countries. Within one, JVs usually combine different strengths in a field or are formed because of legal restrictions within a country; for example an insurance company cannot market its policies through a banking company. Some JVs are also formed because the law of a country allows dispute settlement, should it occur, in a third country. They are also formed to minimize business tax and political risks. The JV is an alternative to the parent-subsidiary business partnership in emerging countries, discouraged, on account of (a) ignoring national objectives (b) slow-growth (c) parental control of funds and (d) disallowing competition.

After the restoration of democracy the elected government had the liberal policy in 2049 BS, which increases number of Joint Venture Banks, which has dramatically increased today.

In the early, 1980's when government permitted establishment of foreign Joint Ventures Banks then three JVB were established which were, Nepal Arab Bank Ltd (NABIL), Nepal Indosuez bank ltd (NIBL), Nepal Grindlays Bank Ltd (NGBL). Nepal Arab bank is the first joint venture bank in Nepal, which proved to be a milestone in the history of banking in Nepal. NABIL gave us a new ray of hope to the sluggish financial sectors. Having observed the success of NABIL based on marketing concepts and also because of liberal economic policy adopted by the successive government, other many commercial banks were established and started their operation. Nepal Grindlays Bank is the third commercial joint venture bank in Nepal which name has been changed to Standard Chartered Bank Nepal in year 29$^{th}$ Ashad 2058. Following are the list of commercial banks operating in the Nepalese markets.

### 1.4 Profile of the Concerned Bank

#### 1.4.1 Nepal SBI Bank Ltd

Nepal SBI bank limited was established under the company act 2021, in 2050 B.S. The main objective of the bank is to carryout modern banking business in the country under the Commercial Act 2031 and to provide loan on Agricultural, Commercial and Industrial Sectors. SBI bank is the first Indo Nepal joint venture bank of India and Nepali promoters. The State Bank of India holds 55% share of total investment. Nepal SBI bank limited is managed by the state bank of India under the joint venture and technical services agreement signed between it and Nepali promoters. Its share allotment is as follows:

| | |
|---|---|
| State Bank of India, India | : 55.28% |
| Employee Provided Fund | : 15.28% |
| Nepalese Public | : 29.64% |

Equity Capital of Nepal SBI Bank Ltd.

| | |
|---|---|
| Authorized capital | |
| 20,000,000 ordinary shares @ Rs. 100 each | 2,000,000,000.00 |
| Issued capital | |
| 18,693,000 ordinary shares @ Rs. 100 each | 1,869,300,000.00 |
| Paid up capital | |
| 18,693,000 ordinary shares @ Rs. 100 each | 1,869,300,000.00 |

Sources: Annual Report of Nepal SBI

### 1.4.2 Standard Chartered Bank Nepal Ltd

Standard Chartered Bank Nepal ltd is the third commercial joint venture bank in Nepal, which was established in 2043 BS, before it was named as Nepal Grindlays Bank, but from the year 2058 Ashad 29$^{th}$ the name has been changed to Standard Chartered Bank Nepal. It is one of the largest foreign JV banks to operate in Nepal, with its head office in Kathmandu. The main objective of the bank is to provide loan to agriculture, commerce and industries and provide modern banking services to people. The shareholding pattern of Standard Chartered Bank Nepal is as follows.

| | |
|---|---|
| Share of ANZ group | : 75% |
| General Public(Ordinary Share) | : 25% |

Equity capital of Standard Chartered Bank Nepal Ltd.

| | |
|---|---|
| Authorized capital | |
| 20,000,000 ordinary shares @ Rs. 100 each | 2,000,000,000.00 |
| Issued capital | |
| 16,101,600 ordinary shares @ Rs. 100 each | 1,610,160,000.00 |
| Paid up capital | |
| 16,101,600 ordinary shares @ Rs. 100 each | 1,610,160,000.00 |

Sources: Annual Report of SCBNL

**1.4.3 Everest Bank Ltd**

It is a joint – venture with Punjab National Bank, India. The bank has come into formal operation from Kartik 2051 B.S under company act 2021 and under banking act 2031. From beginning till Kartik 2053 B.S., it was managed by United Bank of India ltd. Later-on handed to India's largest commercial bank, which is Punjab National Bank. PNB has a century old experience of successful banking and it is well known for financial strength and will lay down modern banking systems and procedures. EBL thus have advantage of the banking expertise and financial strength of its partner currently with 18 branches in various parts of the kingdom of Nepal. Its share allotment is as follows:

| | |
|---|---|
| Nepalese promoters | 50% |
| Joint Venture Partner (PNB) | 20% |
| General Public | 30% |

Equity Capital of Everest Bank Ltd.

| | |
|---|---|
| Authorized capital | |
| 20,000,000 ordinary shares @ Rs. 100 each | 2,000,000,000.00 |
| Issued capital | |
| 12,814,000 ordinary shares @ Rs. 100 each | 1,281,400,000.00 |

Paid up capital

| | |
|---|---|
| 12,796,000 ordinary shares @ Rs. 100 each | 1,279,600,000.00 |

Sources: Annual Report of EBL

The study covers the detail analysis of Investment Policy Analysis of the three joint venture banks, which are Nepal SBI bank, Everest Bank, and Standard Chartered Bank Nepal ltd.

**1.5 Statement of the Problem**

Investment is the most important factor from the point of view of shareholder and the bank management. Though several commercial banks have been established in Nepal within short period of time, sufficient return have not been earned and strong, stable and appropriate policy have not been followed which has been a major problem now. These banks collect lots of deposits but they do not have enough investment opportunity. Due to less investment opportunity, banks use to discourage depositors by reducing the interest on deposits and increasing the minimum shareholder balance. Such condition may cause the highly liquid market and that could provide negative impact to the whole country. If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the banks cannot obtain the profitable return as well as it should sometime lose its principal.

Commercial banks are not properly utilizing their deposits because of lack of sound lending policy, which led the commercial banks to the position of liquidation. Granting loan against insufficient deposits, overvaluation of goods pledge, land and building mortgaged, risk averting decision regarding loan recovery and negligence in the recovery of overdue loan is some of the basic lapse and the results of unsound investment policy sighted in the bank.

Because of the lack of supervision in the investment process, the productivity of the commercial banks investment is very low. There is lack of sound investment policy. There are number of commercial banks, which have increased the tough competition for each other. Due to this tough competition, they issue loan in a hurry under client’s insufficient deposits and securities. This will lead the bank to lose their principle amount, together with interest and finally they are forced for the liquidation process.

There is lack of effective investment diversification that is investment in different sectors like agriculture, cottage industries, middle industries, transport, building etc. Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to Commercial Banks. The direction and guidance provided by Nepal Rastra Bank is the major policy statement for Nepalese commercial banks. A long term and published policy about their operation is not found even in joint venture banks. Even if somewhere they have formulated some procedural guidelines they are failing in proper implementation due to proper supervision.

In this study different joint ventures banks investment policy are analyzed and compared. Following are the major problems that have been identified for the purpose of the study.

- Is there optimum utilization of available fund?
- What is the relationship of investment and loans and advances with total deposits and total net profit of three joint venture banks?
- Does the investment decision affect the total earning of the bank?
- What steps should be taken to improve the investment policy of the banks?

### 1.6 Objectives of the Study

The basic objective of this study is to analyze the investment policy adopted by Nepal SBI bank, SCBNL and Everest Bank Limited. The specific objective of the study is as follows.

- To evaluate the liquidity management, assets management efficiency, profitability position, risk position and investment practices of Nepal SBI bank, Standard Chartered Bank Nepal Ltd and the Everest Bank Ltd.
- To examine the relationship between deposits and total investment, deposits and loan advance, net profit and outside assets.
- To evaluate the growth ratios of loans and advances, total investment with other financial variables.
- To examine the bank adopted the NRB directives related to the investment policy

- To provide workable suggestions and the recommendations on the basis of findings.

**1.7 Focus of the Study**

Investment is the primary factor for economic development of any country. It refers to as using present money to get long-term benefit. In general sense investment means the sacrifice of the present money for the future money. The attributes are generally involved in it that are, time and risk. The sacrifice takes place in the present and is certain and the reward or result of sacrifice comes later and the magnitude is uncertain. Investment in government bonds includes time factor but less risk whereas the investment in the common stock includes both the factor- time and risk.

The main source of investment is saving. Saving is defined as forgone consumption; investment is restricted to real investment of the sort that increases national output in the future. This definition classified investment as real and financial investment. Real investment involves some kind of tangible assets such as land, machinery or factories. Financial investments involve contracts written on pieces of paper, such as the common stock and bonds. Thus, banks play a very important role in the investment of the idle saving in financial activities. It accepts deposits from the individual and provides loans to individuals and industries for economic activities. As bank plays a very important role in the economic development of the nations, thus it is termed as the lifeblood of modern commerce.

The study is mainly focus on the investment policy of joint venture commercial banks in Nepal with the special reference to the Nepal SBI bank, SCBNL and Everest Bank Ltd. The study is focused to analyze the investment policy of the joint ventures bank with the help of financial and statistical analysis. Further study focused on evaluating the deposits, utilization of the bank in terms of loans and advances and investment and its impact in the profitability of the bank and the contribution of off balance sheet activities in the earning of the bank.  The study mainly focuses on the investment analysis of the joint venture banks.

## 1.8 Significance of the Study

It is a well known fact that the commercial banks affect the economy of the whole country. The effort is made to highlight the investment policy of joint venture bank expecting that the study can be a bridge gap between deposits and investment. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. There is vice versa relationship between the investment policy and the economic development of the country. Good investment policy has the positive impact on the investment. Thus it should always be in accordance with the upliftment of the people.

This study “investment policy analysis of Joint Venture Banks” of three JVBs deserves some importance in this field. This study will provide a useful feedback for academic institution, banks employees, trainees and investors and also for financial person, policy makers and other persons concerned with the bank. This study will provide the guidance to the management of banks, financial institution, related parties, shareholders and general public who are customers, depositors and creditors.

## 1.9 Limitation of the Study

The study is to fulfill the partial requirement of Masters Degree and hence may lack proper application of research methodology. The major limitation is the time constraint, unavailability of the sufficient proper related materials and lack of research experience. For the completion of the study the following facts are the basic limitation.

- The study is based on the secondary data.
- The study is based on the data of the few years of the three listed companies only.
- The factors related to investment policy are only taken into consideration, whereas the other numerous factors are ignored.
- The study focuses on the investment aspects of the banking performances only.
- The study is going to be done within the limited time.
- The study deals with the limited financial and statistical tools only.

### 1.10 Organization of the Study

The structure for this study is

**Chapter I: Introduction**

The very first section defines an introduction of commercial bank as well as the introduction of SBI bank limited, Standard Chartered Bank Nepal limited and Everest bank limited, background of the study, statement of the problem, objective and advantages of the study, organized of the study profile of the concerned banks and the limitation of the study are arranged.

**Chapter II: Review of Literature**

In this section, related conceptual review includes discussion on the conceptual framework on investment and fund mobilization. It also reviews the major relevant studies with fund mobilization of commercial joint venture banks.

**Chapter III: Research Methodology**

This section contains information used to evaluate investment policies of Joint Venture Banks in Nepal. It consists of research design, sources of data, population and sample, tools and method of analysis.

**Chapter IV: Data Presentation and Analysis**

This is very much important part of this dissertation. This is heart and core of this which will contain through analysis of collected data in light of objective of the dissertation. It presents and analysis of data includes an analysis of data through a definite course of research methodology. It analyses different financial ratios and statistical analysis related to investment and fund mobilization of three sample banks

**Chapter V: Summary, Conclusion & Recommendation**

In the last part of the dissertation, it discusses summary of the study and suggestions as well as recommendations. Besides these, bibliography and appendices are also included.

# CHAPTER – II

# REVIEW OF LITERATURE

Review of Literature is done to find out the past work on related study. This section surveys the conceptual review and previous work done on the investment policy of the commercial banks. Every study is very much based on the past knowledge. The past knowledge and information provides foundation for the present study. This chapter helps to take adequate feedback to broaden the information based and inputs to this study. Thus this chapter helps to develop expertise in the study of the investment policy analysis.

## 2.1 Conceptual Framework

The banks are such types of institution, which deals with money and substitutes of money. They also deal with credit and credit instruments. For the existence of banks, good circulation of credit is essential. Uneven and unsteady flow of credit always harms the bank. Also it has a direct impact on the economy. An investment of fund is the question of life and death to bank. Thus, the banker must think seriously before making an investment decision.

Commercial bank deals with people's money. They have to find out the ways for keeping their assets liquid so that they could meet the demands of their customer. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors should be concerned that the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an ideal assets and the banker cannot afford to keep a large possession of his assets in the form of cash. Therefore, the banker has to invest the assets in such a way that it can generate adequate profits without sacrificing liquidity. The word CAMELS can be used to judge the soundness of bank. It stands for:

C: Capital Adequacy

A: Asset Quality

M: Management Quality

E:	Earning

L:	Liquidity

S:	Sensitivity for Risk

### 2.1.1 Deposits

It means the amounts deposited in different accounts such as fixed account, current account and saving account of a bank or any financial institution. Deposits are the important source of liquidity for commercial banks. It is also the main source of fund that the bank generally uses for the generation of profit. Therefore, the efficiency of deposits depends on its ability to attract deposits. Deposits are being the borrowed amount from the depositors or from the general public or any institution. Depending upon the nature of deposit, interest rate is determined. There are also the deposits for which the interest is not offered, bank keeps them safely and repays on demand. Personal customers can have savings, current, fixed and recurring deposits account with the bank while business customers are normally not authorized to have savings and recurring deposits account. Deposits constitute the liability of bank. Bank deposits are the amount that it owes to the customers. Deposits are the lifeblood of the banks. Though bank has bulk of bank liabilities, success of bank depends upon the extent they may attract more and more deposits. There are many factors, which affect the deposits, which are as follows.

- Types of customer
- Physical facilities of bank
- Management and accessibility of customer
- Range of the services provided by the bank
- Interest rate paid on deposits

Further economic condition influence on the amount of deposits the bank receives. The three headings of deposits are as follows.

- Current account
- Fixed account
- Saving account

### 2.1.2 Loans and Advances

Banks give loans to the needy customers for productive purposes. Loans are given to the business customers to meet their working capital and long-term requirement. Personal customers take loans against their fixed deposit and for consumer credit. Small loans for productive purpose are also given to personal customer. In addition to this, some portion of loan, advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan and other purpose. In mobilization of commercial bank funds, loans, advances and overdrafts have occupied a large portion. They are the main source of income. Deposits can be crossed beyond a desired level but loans, advances and overdrafts will never cross it. These facilities provide services, which enjoy the customer of the bank. The funds borrowed from banks are much cheaper than the money borrowed from unorganized moneylenders. Increase in economic and business activities with the lower interest rate increases the demand for loan. Due to the limited resources with the growing demand there is fear that Commercial banks and other Financial Institutions take more preferential collateral while granting loans bothering the customers. There is an undesirable effect of too low interest rate.

### 2.1.3 Investment on Government Securities, Shares and Debentures

Bank invests to earn interest and dividend in these government securities and debentures, which are the secondary source of income. A commercial bank extends credit purchasing on Government securities, shares and debentures for some reasons, which are as follows:

- It may want to space its maturities so that the inflow of cash coincide with expected withdrawals by depositors or large loans demand of the customers.
- It may wish to have high grade marketable securities to liquidate, if its primary source of reserves becomes inadequate.
- It may also be forced to invest because the demand for loan has decreased or it is not sufficient to absorb its excess reserve. However, investment portfolio of Commercial bank is established and maintained with a view to the nature banks liability. This is because depositors may demand funds in great volume without previous notice to the banks. The investment must be a type that can be marketed quickly with little or no shrinkage in value

### 2.1.4 Investment on other Companies Share and Debentures

Due to excess fund but least opportunity of the profitable investment and also to meet the requirement of NRB directives commercial bank utilizes funds to purchase shares and debentures of other companies (Financial and non Financial). Like most commercial banks purchase shares of regional development banks, NIDC and other development banks.

### 2.1.5 Other use of Funds

Commercial bank must maintain the minimum bank balance with NRB as prescribe by the bank. They have to maintain the cash balance in local currency in the vault of the bank. They must maintain the minimum of 6% in fixed deposit, 8% in current and saving deposits and 3% of minimum cash balance in local currency at NRB. A part of the funds should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computer, stationery etc.

### 2.1.6 Off Balance Sheet Activities

These are items like letter of credit, letter of guarantee, commission, bills for collection etc. Nowadays, these activities are stressfully highlighted by some economists and finance specialist, to expand the modern transaction of a bank. These activities are very important, as they are the good source of profit to the bank though they have high risk. These items are not recognized as assets or liabilities in Balance Sheet, but are the future purchase or sale of assets, which are contingent obligation. Some of the items can be defined as follows.

- A letter of credit is defined as a written undertaking issued by the bank on behalf of the seller at a request, on the instruction of the buyer to pay at sight or at a determinable future date up to stated sum of money within a prescribe time limit and against stipulated documents or other conditions.
- Letter of guarantee is a definite and irrevocable undertaking by a bank on behalf of its customer to make payment up to a specified sum of money to the beneficiary on demand in case of default by its customers. The need of bank guarantee arises in business. Naturally, business customers enjoy this service. Sometimes, personal customers also may need a bank guarantee.

- Bills are received in the form of cheques / drafts. Business and personal customer receive the cheques / drafts drawn on other banks. Banks collects the proceeds of such cheques and pay to the customers.
- Remittance is the process of sending and receiving fund from various places as per the necessity of the day. This function of bank has benefited both the business and personal customers. Fund transfer is made through various modes like demand draft, telegraphic payment order, swift, and fax and mail order payment.

### 2.2 Sound Lending and Investment Policy Features

In pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing of the money in the hands of others for their use, in return for proper instruments entitling the holders to fixed income payments or the participation in expected profits. But for manufacturing and trading firms, the term investment will be those long-term expenditures that aim at increasing plant, capacity of efficiency or at building up goodwill, thereby producing an increased return over a period. Whereas an economist view, investment as a productive process by means of which additions are made to capital equipment.

Higher the credit higher will be the profitability. The income and profits of the bank depends upon its lending procedures, lending policy and investment of its funds in different securities. Sound Lending and investment policy is not only prerequisite for banks profitability but also crucially significant for the promotion of commercial savings of a backward country like Nepal. Investment and investment problem will resolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further source of income. Management of surplus resources is a way as to make it work for providing benefit to the supplier of the funds by letting third party to use such resources. However, the investment needs to be a procedural task. It must follow a definite investment process, which definitely begins for the formulation of proper investment policy. Sound lending and investment policies which must be considered by commercial banks have been studied and presented as follows.

### 2.2.1 Safety and Security

Bank should never invest funds on those securities, which are subjected to too much for volatility (Depreciation and Fluctuation) because a little alternate may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn millions in minute also. Only durable, marketable and high market valued securities should be accepted. For this purpose MAST should be followed.

- M- Marketable
- A- Ascertainable
- S- Stability
- T- Transferability

### 2.2.2 Profitability

Profit of Commercial Bank depends upon the interest rates, volume of loan, its time period and nature of investment in different securities. It is a fact that maximizes the volume of wealth through the maximization of the return on their investment and lending. So banks must invest funds where they gain maximum profit. Ambition of profit to commercial bank seem reasonable as bank has to cover all the expenses and make payment in the form of dividend to the shareholder who contribute to build up the bank's capital and interest to the depositors. For this the bank calculates the cost of funds and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligation, it will go ahead of investment. A good bank is one who invests most of its funds in different earning assets standing safety from the problem of liquidity i.e., keeping cash reserve to meet day-to-day requirement of the depositors. We know very well that liquidity is maintained at the cost of profitability and vice versa. For a bank, liquidity and profitability are likely two wheels of carts. In the absence of any one of them, the bank cannot forge ahead. A bank is set up to maximize profitability. The profit is excess of incomes over expenses. Banks have to meet following obligation.

- Interest on deposits and borrowings
- Personal expenses
- Operating expenses
- Provision of possible losses
- Reserves

In order to meet aforesaid obligation and to pay maximum dividends to shareholders, the bank is required to make incomes in excess of aforesaid expenses / obligation.

### 2.2.3 Liquidity

Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. Inadequate liquidity damages credit- standing of those organizations. But if banks fail to repay the deposits on demand, the trust of public in the bank fades away. This leads to the "runs" in the bank and bankruptcy thereof. Liquidity is the ability of the firm to satisfy its short-term obligation as they came due. Generally people use to deposits their earning in the different account of the bank, having confidence that the bank will repay their money whenever it is needed. In order to maintain the confidence to the depositors, the bank must always be ready to meet current or short-term obligation when they become due for repayment. Liquidity is important for motives cited as under:

**1. Transaction Motive**

a. Withdrawal of deposits
b. Loan disbursement
c. Personnel expenses

**2. Speculative Motive**

a. Foreign exchange holding
b. Unforeseen opportunities
c. Potential investments

**3. Precautionary Motive**

a. To meet contingencies like fines, errors, tax, guarantee invocation etc.

Banks maintain liquidity in the form of:

- Cash and bank balance (first line of defense)
- Placement / money at call or short notice (second line of defense)
- Investment in government securities and other securities readily convertible into cash (third line of defense)

### 2.2.4 Purpose of Loan

Does a customer need a loan is the very important question raised by any bank. If the borrower misuses the loan then there is the guarantee of the heavy bad debts. Thus, the bank should study the detailed information about the scheme of the project or the other activities related to the scheme before granting any loan. Without the examination of the purpose of the loan of the customer bank should not perform the lending function. There is the customer who does not make lot of money in long time and there are also other types of customers who make money in a short period of time like in a minute. Thus, the bank should carry the proper study of the project.

### 2.2.5 Diversification

In simple language diversification can be defined as “not putting all the egg in one basket” or “spreading the risk.” Bank should not grant loan in only one sector. In fact we all know never put all eggs in one basket. Investing in more than one sector minimizes the risk, which is call, the diversification. It minimizes the risk, which also helps to sustain loss. As per the law of average, if a security of a company is divided there may be an appreciation in the securities of other companies. In this way loss can be recovered. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return. Simple diversification of example is selecting securities randomly which will reduce risk.

### 2.2.6Tangibility

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible property does not yield an income apart from intangible securities, which have lost their value due to price level inflation.

### 2.2.7 Legality

Illegal securities will bring out many problems for the investors. A Commercial bank must follow the rules and regulation as well as different directions issued by NRB, Ministry of Finance, Ministry of Law and other while mobilizing its fund.

## 2.3 Review of Previous Studies

### 2.3.1 Review of Books

Financial Institutions are the basic need and they play the vital role in the money market as well as open market policy system of the business competition world. It deals with the money, credit instrument and balance between the liquidity, profitability and safety. Good circulation of money is very important for the bank. Uneven flow of cash harms the bank as well as the economy. Thus, to collect funds and utilize it in a good investment should be taken very carefully. Investment of the fund may be the life and death for the bank. Investment management of Bank is guided by the investment policy adopted by the bank. The investment policy of the banks helps the investment operation of the bank to be efficient and profitable by minimizing the profitable risk. So that an economic word is attach in economics risk and return theory of future results. It is challenging task for commercial bank.

**Bista, (2004)** "*Nepal Ma Aadhunik Banking Byabastha*" has made an attempt to highlight some of the important factors, which have contributed to the efficiency, and performance of Joint Venture banks. The researcher concluded in saying that

- The establishment of JV banks a decade ago marks the beginning of modern banking era in Nepal.
- The JV banks have brought many new banking techniques such as computerization, hypothecation, consortium finance and modern activities into the economy.

**Bexley, (2008)** expresses his view as "Investment policy fixed responsibility for the investment disposition of the bank's assets in terms of allocating funds for the investment and loan establishing responsibility for day to day management of those assets".

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

In the words of S.P Singh “The investment policy of banks are conditioned to great extent by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision keeping of course his bankers credit also in mind” (Singh,1983: 5).

“A sound investment policy of a bank is such that its fund is distributed in different types of assets with good probability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sectors tend to be concentrated in the loan portfolio. When a bank gets into a serious financial trouble its problem usually comes from the significant amount of loan that have become uncollectable due to mismanagement, illegal manipulation of loan, misguided leading policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds” (Baidhya, 1997: 46-47).

According to Reed, Cotter, Gill and Smith “Commercial banks still remain the heart of our financial system holding the deposits of millions of persons, government and business units. The researchers make funds available through their lending and investing activities to borrowers, individuals, business firms and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets.” They further states that the primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their action, production is increased, capital investments are expanded and a higher standard of living is realized. Although the investment activates of commercial banks are usually considered separately from lending, the effects and the social results are the same (Edward, 1980:1-5).

In the word of Gitman and John “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive return” (Gitman, 1990:47).

“The term investment can cover a wide range of activities. It often refers to investing money in certificates of deposits, bonds, common stock or mutual funds. More knowledgeable investors would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompass very conservative positions and aggressive speculation" (Parker, 1988:35).

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

It may be said that a bank must strike a balance between liquidity, profitability and safety. The secret of successful banking is to distribute resources between the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly realizable) to meet every claim for the bank to pay its way and earn profit for its shareholders (Radhaswami, 1979: 24).

Investment management of bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk. So that an investment word is attach in economics risk and return theory of future result.

Various authors of above definition views that it is clear that investment means to trade a rupee amount today for some expected future stream payments or benefit. Thus, it is the most important functions of commercial banks. Bank has to be very cautious while investing their funds in various sectors. The success of bank heavily depends upon the proper management of its investable funds.

Nowadays, more and more banks have developed formal written lending policies in recent years. They provide guidance for the lending officers and there by establish a greater degree of uniformity in lending practices. Since lending is important both to the bank and to the community it serves, loans policies must be worked out carefully after considering many factors like as follows.

- Capital position
- Risk and profitably of various types of loans
- Stability of deposits
- Economic Condition
- Influence of Monetary and Fiscal policy
- Ability and experience of banks personnel
- Credit needs of the area served

Commercial banks follow their own investment policy. However, few banks have followed the written investment policy and few other banks do not follow the written investment policy. Those who object to follow the written investment policy those who feel that the economic environment of banking changes so rapidly that a formal written statement would become dated within a short time. It is true that banking operates in a changing environment, but changes do not occur rapidly that they cannot be incorporated into a written policy.

The basic factors that will determine the objectives of a bank's investment policy are the income and its liquidity needs and management willingness to trade liquidity for greater income opportunity and vice versa which means accepting greater or lesser degree of risk. Formulation of an investment policy must give cognizance to the entire risk exposure that bank management is willing to assume as well as risk carried by the securities that comprise the investment account. One of the acceptable methods of reducing risk on the investment portfolio of a commercial bank is by diversification, which is a basic important rule of any investment policy. However risk cannot be completely avoided by diversification, but they can be reduced. A statement of investment policy should designate the person responsible for handling the investment program. This is fundamental to the efficient operation of an investment portfolio, is that "too many cooks spoil the stew". Since the board of directors are responsible for proper investment of the banks funds, periodic report regarding the investment portfolio should be prepared for the boards for evaluating investment management and establishing investment policy. The investment policy of bank should be reviewed occasionally and modified as economic condition change.

### 2.3.2 Review of Articles

Review of Article tries to review various related articles published in different journals, bulletins, magazines, newspapers and other related books.

**Bajracharya (2007),** "*Monetary Policy and Deposit Mobilization in Nepal*" had concluded that the mobilization of domestic saving is one of the monetary policies in Nepal. For this purpose commercial banks stood as the vital and active financial intermediary for generating resources in the form of deposit of the private sector for providing credit to the investor's in different sector for providing credit to the investor's in different aspects of economy.

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

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

**Lu (2009),** "*What is the Wind Behind this Sail? Can fund Managers Successfully time their Investment Styles?*" stated that over the ten year period of this study (June 1992 to July 2002), the average mutual fund manager demonstrates little ability to time the market in aggregate. In fact, using empirical factor timing model, only 8.3 percent of funds had significant positive alphas. There is even some weak evidence that supports the assertion that mutual fund managers attempt to implement market timing strategies at the expense of poor stock selection performance. Most funds are restricted from taking substantial positions in small-cap stocks and they are relatively higher transaction costs associated with size (big cap /small cap) and momentum (winner/loser) timing strategies when compared to book-to-market (value/growth) which is related to the trading behavior and preferences of fund managers. Fund managers prefer big-cap stocks to small-cap stocks as safer investments. Also, they tend to sell winners too soon and to hold on to losers too long.

**Pradhan (2010),** "*Deposits Mobilization its Problem and Prospects*" published in Nepal Bank Patrika indicates that deposits are the lifeblood of every financial institution, commercial banks, finance company, co-operative or non government organization. The researcher further comments in consideration of most of banks and finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposits sectors. Leaving few joint ventures banks other banks heavily rely on the business deposits and credit disbursement.

The researcher has highlighted the following problems of deposits mobilization in Nepalese context:

- Most of the Nepalese people do not go for saving in institutional manner due to the lack of good knowledge. However they are very much habitual of saving of it in the form of cash or ornaments. Their reluctant to deal with the intuitional system is governed by the lower level of understanding about financial organization process, withdrawn system, and availability of depositing faculties and so on.
- Unavailability of the intuitional services to the rural areas.
- Due to lesser office hours of banking system, people prefers holding the cash in the personal possession.
- No more mobilization and improvement of the employment of deposits and the loan sectors.

The researcher has recommended following points for the prosperity of deposits mobilization,

- Cultivating the habit of using rural banking unit.

- By adding service hour system to banks.
- Nepal Rastra Bank could also organize training programme to develop skilled manpower.
- By spreading cooperative to rural areas to develop mini branch services.
- By providing sufficient institutional services to rural areas (Pradhan, 2010:9).

### 2.3.3 Review of Masters Degree Thesis

Many students have conducted their thesis on the investment policy analysis. Following are the few among many related thesis.

**Shrestha (2007),** conducted a study on *"A Comparative Analysis on Investment Performance of Commercial Banks in Nepal*" with the following objectives;

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

With the technical and fundamental analysis the following findings can be achieved. The findings of the study conducted through the secondary data are as follows:

- The liquidity position of NIBL was stronger than NABIL and HBL.
- At the same time, liquidity position of NIBL was highly fluctuation, which showed that NIBL bore higher risk than other two banks.
- NIBL had the least investment in Government Securities, which considered the least risky asset.
- From the analysis of assets, management ratio of NIBL in comparison to the NABIL and HBL was more successful regarding asset management and deposit mobilization.

- NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor.
- In the profitability analysis, none of the three banks profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position.
- From the risk point of view, NABIL and NIBL were facing higher risk than HBL, but the risk level of all three banks seemed almost the same.
- From the analysis of growth ratios, NIBL's collection of deposit, granting of loans and advances and net profit were better but in terms of investment, HBL is better.

**Dhakal (2008),** conducted the study on *"Investment Policy of Commercial Banks in Nepal"*.

The main objectives of this thesis are as follows:

- To find out the relationships between total investment, loan and advances, deposit, net profit and outside assets.
- To assess the impact of investment on profitability.
- To identify the investment priority sectors of sampled commercial banks.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.
- To provide suggestions and possible guidelines to improve investment policy and its problems.

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

- The liquidity position of Everest Bank Ltd. (EBL) was comparatively better than that of Nabil Bank Ltd. (NABIL) and Bank of Kathmandu Ltd. (BOK).
- All the three banks had met the normal standard current asset ratio to meet the short-term obligations of their customers.
- EBL had invested the most in Government Securities, followed by BOK and NABIL.
- BOK had mobilized a huge sum its funds to earn the profit.

- The loans and advances to total deposit ratio, loan and advances to total working fund ratio of EBL lied in between those of Nabil and BOK
- Overall analysis of profitability ratios showed that EBL was on an average profitable in comparison to other bank i.e. NABIL and BOK.
- The trend of the total investment, total deposit, loan and advances and net profit of EBL showed better position than that of NABIL and BOK.

**Yadav (2009),** conducted thesis on "*A Study on Comparative Financial Performance of Joint Venture Banks in Nepal* ".

The specific objectives of the research are:

- To find out comparative and competitive position of two JVBs banks.
- To rank the NABIL and NBBL in terms of financial operational profitability, productivity position.
- To show the trend of total deposits, investments, total income, total expenses and total net income.
- Measuring financial risk of NABIL and NBBL.

The findings of the study are as follows:

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

- It should be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and its customers. Comparatively NABIL profitability position better than NBBL.

**Thapa (2010),** conducted a study on "*Investment Policy of Commercial Banks in Nepal.*" with the objectives of:

- To evaluate liquidity, activity and profitability ratios of RBB in comparison with NBL and industry average.
- To analyze the relationship of loan and total investments with total deposit and net profit of RBB and to compare it with that of NBL and industry average.
- To use trend analysis to compare loan and advance, total investment, total deposit and net profit of RBB and compare the same with other two.
- To examine the loan loss provision of RBB and NBL.

On the basis of the various studies and analysis conduced above, the following are findings of the study:

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

**Tapol (2011),** conducted a study on "*Investment Practice of Commercial Banks in Nepal*".

The objectives of the study are as follows:

- To measure the financial performance.
- To find out comparative and competitive position of two JVBs banks of Nepal.
- Measuring risk of NABIL & NIBL bank.
- To evaluate the growth ratios of loan and advance and total investment and respective growth rate of total deposit and net profit.

The findings of the study are as follows:

- The liquidity position of NIBL was stronger than NABIL and HBL.
- At the same time, liquidity position of NIBL was highly fluctuating, which showed that NIBL bore higher risk than other two banks.
- NIBL had the least investment in government securities, which considered the least risky asset.
- From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding asset management and deposit mobilization.
- NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor.
- In the profitability analysis, none of the three banks profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position.

## 2.4 Research Gap

Various researchers have done research in Investment policy analysis of the various banks. With the study of the various related research it is seen that researchers objective of the study were evaluation of the liquidity, efficiency, profitability and risk position. Most of them have taken NIBL, Himalayan Bank and SCBNL as the sample banks. Previous researchers had not talked about any directives regarding Investment policy given by the NRB. Thus this study intends to cover how the banks have adopted the Investment policy directives and about their views. The sample banks taken for the study is SBI and Everest bank and SCBNL. In this study, it has taken primary data with the questionnaire. With the help of the questionnaire, how the sample banks are adopting the NRB directives related to the investment policy matter and their ideas and suggestion are taken into consideration. The previous researchers however, have missed the study.

# CHAPTER – III
# RESEARCH METHODOLOGY

### 3.1 Introduction

"Research Methodology is a way to systematically solve the research problem" (Kothari, 1990:10). Research methodology describes the method and process applied in the entire subject of the study. It may be understood as a science of studying how research is done significantly. It is very necessary for the researcher to know not only the research method or technique but also the methodology.

### 3.2 Research Design

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of data.

"Research Design means an overall framework or plan for the collection and analysis of data" (Wolf and Pant, 2003:74).

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the research questions and to control variance (Kerlinger, 1986:275).

A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Descriptive and analytical research design has been used in this study. Few related questions are also asked and presented to the banks for the secondary data collection. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate investment policy of three joint ventures banks in Nepal.

### 3.3 Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, the total commercial banks constitute the population of the data and the banks that are selected under study (that) constitute the sample for the study. So from the population of various commercial banks operating in Nepal three banks taken as sample are-

- Nepal SBI Bank Ltd
- Everest Bank Ltd
- Standard Chartered Bank Nepal Ltd.

### 3.4 Sources of Data

"Source" means any people or place from where and whom something emerges. Data may be obtained from several sources.  Each research has its own data needs and data sources. The study is mainly based on the secondary data. The required data have been extracted from the annual reports of respective commercial banks and downloaded from official websites. Various types of other useful resources like articles, books, previous research reports and journals were referred to provide necessary justification.

### 3.5 Data Analysis Tools

Presentation and Analysis of the collected data is the core of the research work. The collected raw data are first presented in systematic manner in tabular forms and are then analyzed by applying different financial and statistical tools to achieve the research objective. Besides these, some graph charts and tables have been presented to analyze and interpret the findings of the study. Likewise some of the tools applied are as follows:

#### 3.5.1 Financial Analysis Tools

It helps to analyze the financial strengths and weaknesses of a firm. Tools like ratio analysis are used for financial analysis. Even though there are many ratios to analyze and interpret the financial statement, only those ratios that are related to the investment operation of the banks have been used in this study.

Financial ratios are the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output and credit decision.

Thus ratio analysis is used to compare a firm's financial performance and status to that of other firms. The qualitative judgment regarding financial performance of a firm can be done with the help of following ratio analysis.

#### 3.5.1.1 Liquidity Ratios

These ratios are used to judge the ability of banks to meet its short-term liabilities that are likely to mature in the short period. It measures the speed with which bank's assets can be converted into cash to meet deposit, withdrawal and other current obligations. The following ratios are evaluated under liquidity ratios.

**1. Current Ratio**

The ratio is computed dividing current assets by the current liabilities. Current assets includes, cash and bank balance, money at call or short notice, loans and advances, bills receivable, marketable securities, investment on government securities and other interest receivable and miscellaneous expenses.

Current liabilities includes deposits and other accounts, short-term loans, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

The acceptable ratio is 2:1, but accurate and standard depends upon circumstances in case of seasonal business. The formula used is

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

**2. Cash and Bank Balance to Total Deposit Ratio**

The formula applied here is,

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

Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items. The total deposits consists of current other deposit.

**3. Cash and Bank Balance to Current Asset Ratio**

The formula applied is,

$$\text{Cash and Bank Balance to Current Asset Ratio} = \frac{\text{Cash And Bank Balance}}{\text{Current Assets}}$$

Cash remain with the bank and balances with other banks are cash and bank balances of bank.

**4. Investment on Government Securities to Current Assets**

Government securities include treasury bills, development bonds, saving bonds etc. The formula applied is,

Investment on Government Securities to Current Assets

$$= \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

**5. Loans and Advances to Current Assets Ratio**

The loans and advances include loans and advances, cash credit, loan and foreign bills purchase and discounted. The formula applied here is

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

**3.5.1.2 Assets Management Ratio / Activity Ratio**

It measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liabilities ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing function. Assets management ratio measures how efficiently the bank manages the resources at its command. The following are the various ratios relating to assets and liability management, which are used to determine the efficiency of the subjected bank in managing its assets.

- **Loan and Advances to Total Deposit**

This helps to find out, how successfully the banks are utilizing their total deposit on loans and advances for profit generating purpose. Greater ratio implies the better utilization of total deposits; this can be obtained by dividing loans and advances to total deposits, which can be stated as follows:-

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

- **Total Investment to Total Deposit Ratio**

Investment is one of the major credits created to earn income. This implies the utilization of firm's deposits on investment in government securities, shares and debentures of other organizations and banks.

The total investment consists of government securities, investment on debentures and bonds, shares in other companies and other investment. It can be computed as follows.

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

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

Loan and advances is the major component in the total working fund, which indicates the ability of bank to channels its deposits in the firms of loans and advances to earn high return.

Here total-working funds includes, all assets as of on balance sheet items. It includes current assets and other fixed asset, loans for development banks and other miscellaneous assets but excludes off balance sheet items. It can be computed as follows:

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

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

This ratio shows that the banks investment on government securities in comparison to total working fund. It can be computed as follow:-

Investment on Government Securities to Total Working Fund

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

- **Investment on Shares and  Debentures to Total Working Fund Ratio**

This ratio shows the banks investment in shares and debentures of subsidiary and other companies. It can be calculated as below:

Investment on Share and Debentures to Total Working Fund

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

**3.5.1.3 Profitability Ratio**

These are main tools to measure the overall efficiency of operations of a firm. It is a true indicator of the financial performance of any institution. It is notable that higher the profitability ratio is better the financial performance and vice versa. The various profitability ratios can be obtained through the following ways.

- **Return on Total Working Fund Ratio**

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Working Fund}}$$

The numerator includes with portion of income left to the internal equities after all costs charges expenses have been deducted.

- **Return on Loans and Advances**

$$\text{Return on Loans and Advances} = \frac{\text{Net Profit After Tax}}{\text{Loan and Advances}}$$

- **Total Interest Earned to Total Working Fund**

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

Higher ratio implies better performance of the banks in terms of interest earning on its total working fund.

#### 3.5.1.4 Risk Ratio

Risk taking is the prime business of banks investment management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with the various banking operation which ultimately influences the bank investment policy.

- **Credit Risk Ratio**

It measures the possibility that the loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition it is expressed as the percentage of non – performing loan to total loans and advances.

This is stated as,

$$\text{Credit Risk Ratio} = \frac{\text{Total Loans and Adavances}}{\text{Total Assets}}$$

- **Liquidity Risk Ratio**

It measures the liquidity for the deposits. The bank must invest its deposits in loans and advances to earn profit though loans and advances cover very high risk. If the bank keeps more idle cash accepting more deposits then bank will not be in any liquidity risk position but might not earn sufficient return too. Thus the liquidity risk is calculated by the following formula

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank}}{\text{Total Deposit}}$$

#### 3.5.1.5 Growth Ratio

Growth ratios are directly related to the fund mobilization and investment of a commercial bank. It represents how well the commercial banks are maintaining the economic position.

To examine and analyze following growth ratios are calculated in this study

- Growth ratios of loan and advances
- Growth ratio of total investment
- Growth ratio of deposits
- Growth ratio of net profit

### 3.1.2 Statistical Analysis Tools

Some important statistical tools are used to achieve the objectives of this study. In this study statistical tools listed below are studied.

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Some important statistical tools are used to achieve the objectives of this study. In this study statistical tools listed below are studied.

#### 3.5.2.1 Arithmetic Mean (Average)

It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

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

Where,

| | | |
|---|---|---|
| $\overline{X}$ | = | Arithmetic mean |
| n | = | Number of observations |
| $\sum X$ | = | Sum of observations |

#### 3.5.2.2 Standard Deviation

A standard deviation is the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. It is denoted by the letter σ (sigma). In this study, standard deviation of different ratios is calculated.

$$\sigma = \sqrt{\frac{\sum(X-\overline{X})^2}{n}}$$

Where,

$\sigma$ = Standard deviation of X

n = No. of observations.

### 3.5.2.3. Coefficient of Variation (C.V.)

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations knows as coefficient of variation. The coefficient of dispersion based on standard deviation multiply by 100 is known as C.V. it is used for comparing variability of two distributions, the C.V is defined as,

$$C.V = \frac{\sigma}{\bar{X}} \times 100\%$$

Where,

C.V = Coefficient of Variance

$\sigma$ = Sigma

$\bar{X}$ = Arithmetic Mean

### 3.5.2.4 Probable Error (P.E.)

The probable error is used to measure the reliability and test of significance of the correlation coefficient. It is calculated by the following formula.

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

Where,

r = the value of correlation coefficient

n= number of pairs of observations.

P.E. is used in interpretation whether the calculated value of r is significant or not.

1. If r <P.E., it is insignificant, i.e. there is no evidence of correlation.
2. If r > 6P.E, it is significant.
3. If P.E< r< 6P.E, nothing can be concluded.

#### 3.5.2.5 Coefficient of Correlation Analysis

This analyzes identifies and interprets the relationship between two or more variables. In the case of highly correlated variables, the effect of one variable may have effect on other variable. The study is to find out the relationship between the following variables.

- Coefficient of correlation between deposit and loans and advances
- Coefficient of correlation between deposit and total investment
- Coefficient of correlation between total outside assets and net profit

The coefficient of correlation can be calculated by the following formula.

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2}\sqrt{n\sum Y^2 - (\sum Y)^2}}$$

Where,

n = no. of observation

$\sum X$= sum of X variable

$\sum Y$= sum of Y variable

# CHAPTER - IV

# DATA PRESENTATION AND ANALYSIS

## 4.1 Financial Analysis

The main aspect of financial ratios is to study, evaluate and analysis of those major financial performance which are very much related to the investment management and also with the fund mobilization of Nepal SBI, SCBNL and Everest Bank Ltd. The ratios that are related to the investment aspects and fund mobilizations are only studied in this chapter. Other various financial ratios are not taken into consideration. All the ratios are calculated using secondary data. The important ratios that are studied here are as follows:

- Liquidity ratio
- Asset Management ratio
- Profitability ratio
- Risk ratio
- Growth ratio

### 4.1.1 Liquidity Ratios

Liquidity ratio measures the ability of the firm to meet its current obligation. Commercial banks including the joint ventures bank must maintain the satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, withdrawals, and pay maturity in time and convert non- cash into cash to satisfy immediate need without loss to bank and consequent impact or long run profit. For the calculation of the liquidity ratios, the current assets and liabilities are needed. Liquidity position of Nepal SBI bank, SCBNL and Everest Bank are comparatively studied through the following ratios.

#### 4.1.1.1 Current Ratios

Current ratio shows the relation between current assets and current liabilities. Current ratio indicates the ability of the bank to meet its current obligation. Current ratio is calculated by dividing current assets by current liabilities. The standard current ratio is 2:1 and seasonal business current ratio is 1:1 is also acceptable.

The current ratio, mean, standard deviation and coefficient variation of the three sample joint ventures are given in the following table 4.1.

**Table 4.1**

**Current Ratio**

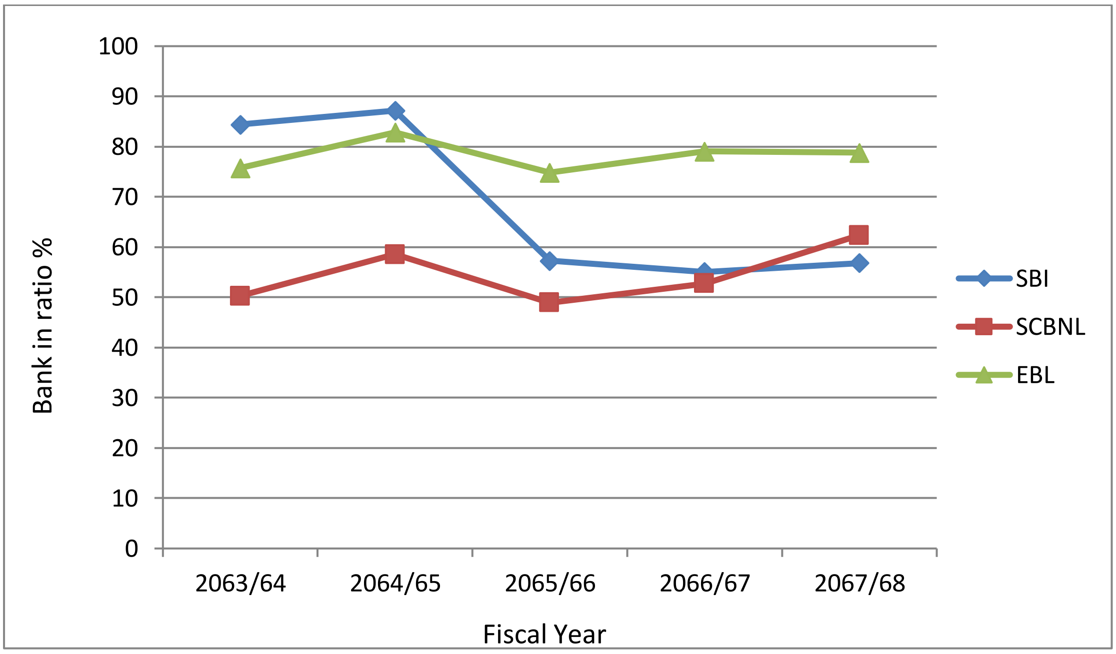
(In Times)

| **Banks** | **Fiscal Year** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 84.42 | 87.17 | 57.24 | 55.04 | 56.80 | 68.13 | 14.47 | 21.23 |
| SCBNL | 50.24 | 58.52 | 48.92 | 52.73 | 62.36 | 54.55 | 5.11 | 9.36 |
| EBL | 75.76 | 82.83 | 74.84 | 79.03 | 78.76 | 78.24 | 2.82 | 3.60 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix – A)*

**Figure 4.1**

**Current Ratio**




From the table 4.1 it is clear that the ratios of all the sampled banks are in fluctuating trend. The ratio of SBI is in increasing trend from 2063/64 to till 2064/65 and decrease in F/Y 2065/66 to F/Y 2066/67 and again increase at F/Y 2067/68. Likewise, the ratio of SCBNL is in increasing trend from the F/Y 2063/64 to F/Y 2064/65 and decreasing in F/Y 2065/66, increasing from F/Y 2066/67 to F/Y 2067/68. Similarly, the ratio EBL is in increasing trend from F/Y2063/64 to F/Y 2064/65 and decrease in 2065/66 and again increased in F/Y 2066/67 and then decreased in F/Y 2067/68.

Looking at the average liquidity of all the three banks, EBL>SBI>SCBNL. Thus, the liquidity position of SBI is sound than the other 2 banks. Similarly the CV of EBL is less than the other two banks. It can be said that current ratio of EBL is more consistent that the other banks.

From the viewpoint of working capital policy, all three banks had adopted aggressive working capital policy by attracting more current liabilities that is more current and saving deposits and deploying them into liquid sectors.

#### 4.1.1.2 Cash and Bank Balance to Total Deposit Ratios

Cash and bank balance is said to be the first line of defense of every cash transaction. The ratio between the cash and bank balance and total deposit measures the ability of the bank to meet the unanticipated cash and all types of deposits. Higher the ratio, the greater will be the ability, to meet sudden demand of deposit. However, every high ratio is not desirable since bank has to pay interest on deposit. This will also maximize the cost of fund to the bank.

The cash and bank balance to total deposit ratio, mean, standard deviation and coefficient variation of the three sample joint ventures are given in the following table 4.2.

**Table 4.2**

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

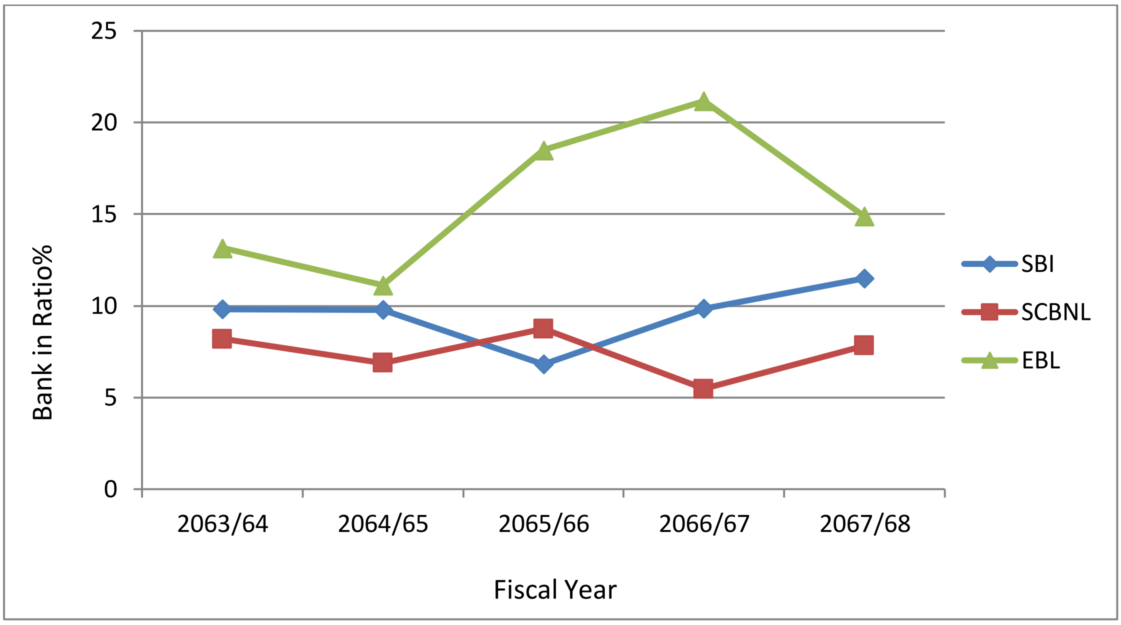
(In Percentage)

| **Banks** | **Fiscal Year** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 9.81 | 9.79 | 6.81 | 9.86 | 11.50 | 9.55 | 1.52 | 15.90 |
| SCBNL | 8.20 | 6.89 | 8.75 | 5.48 | 7.83 | 7.43 | 1.15 | 15.45 |
| EBL | 13.15 | 11.13 | 18.50 | 21.17 | 14.88 | 15.77 | 3.63 | 23.01 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detailed in Appendix - B)*

**Figure 4.2**

**Cash and Bank balance to Total Deposit Ratio**




Cash and Bank Balance to total deposit ratios of all the banks are in fluctuating trend under the study period. In average, EBL has maintained the higher cash and bank balance to total deposit ratio than the other two banks. It shows that the cash and bank balance in liquidity position of EBL bank is higher than other two banks. It states that the cash and bank balance in liquidity position of SCBNL is lower than the other two banks. It shows that there could be some difficulties to meet the demand of its customers to pay their deposit on at any time. However; it may earn more due from invested cash to different sectors. However CV of SCBNL is lesser than the other two banks thus, it is less consistent than the other two banks. EBL is comparatively in good position to meet the deposits in demand of the customer and regarding CV, this bank is less consistent than the other two banks.

EBL has high ratio which indicates that the bank has high ability to pay for depositors and to invest in different sectors. However, the high ratios also shows very inefficiency as all deposits amounts mostly to invest other sectors due to investing opportunity occurs and gain more. Likewise, short term marketable securities, treasury bills, etc. are ensuring enough liquidity, which will help the bank to improve its profitability.

#### 4.1.1.3 Cash and Bank Balance to Current Assets Ratios

This ratio shows the banks liquidity capacity on the basis of cash and bank balance that is the most liquid asset. High ratio indicates the banks have sound ability to meet the daily cash requirement to their customer deposit and vice versa. But always the high ratio is not preferred, as the bank has to pay more interest on deposit and will increases the cost of fund. Lower ratios are also not acceptable since it is very dangerous as the bank may not be able to make the payment against the cheques presented by the customers. So, bank should maintain sufficient and appropriate cash reserve properly for the customers demand against deposit when required and less interest is required to be paid against the cash deposit.

The cash and bank balance to current assets ratios are computed by dividing cash and bank balance by current assets. This is shown in table 4.3.

**Table 4.3**

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

(In Percentage)

| **Banks** | **Fiscal Year** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V %** |
| SBI | 10.61 | 9.89 | 11.77 | 17.66 | 19.97 | 13.98 | 4.06 | 29.04 |
| SCBNL | 15.19 | 11.36 | 17.08 | 9.93 | 11.99 | 13.11 | 2.63 | 20.04 |
| EBL | 15.84 | 12.92 | 23.94 | 25.82 | 18.37 | 19.38 | 4.85 | 25.02 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix- C)*

**Figure 4.3**

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

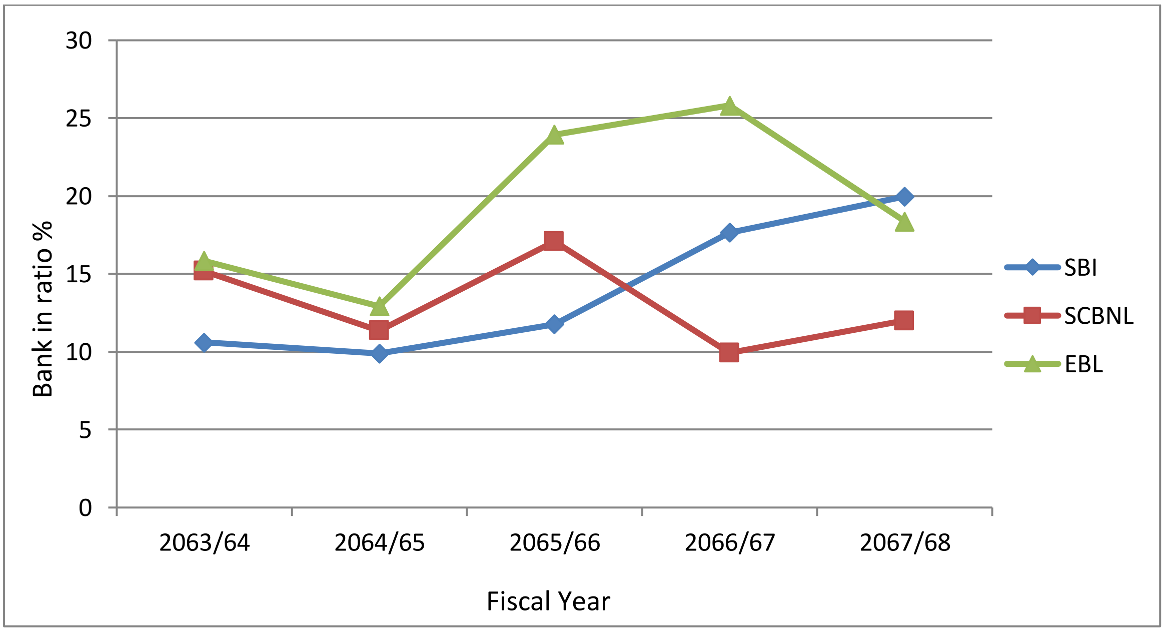


Table 4.3 shows that the banks ratios are maintained in fluctuating trend. The mean ratio of EBL is the highest than the other two banks. Although the trend is fluctuating this bank has maintained the higher liquidity position than the other two banks.

However, CV of SBI> SCBNL and CV of SBI > EBL thus, SBI is more consistent than EBL and less consistent than SCBNL. SCBNL has the less CV than the other two banks so it is more consistent that the two banks.

Thus, it can be concluded that SBI is highly capable for maintaining cash and bank balance in comparison to other two banks. Although SCBNL has lower ratio on average but it could be maintained to invest more fund in different sectors and may be generating more income than the other two banks. Other two banks except SCBNL are maintaining the high cash and bank balance to meet the customer's deposits on demand

#### 4.1.1.4 Investment on Government Securities Ratios to Current Assets Ratios

The objective of this ratio is to examine the portion of a commercial bank's current assets which is invested on various government securities issued by the 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 for other purpose. Though, the government securities are not so much of liquid assets as cash and bank balance, they can be easily sold in the market or they can be converted into cash in other ways. This ratio shows out of total current assets, how much percentage of it has been occupied by the investment on government securities. The main objective of any commercial bank is maximizing profit. Although, the government securities do not give more return to investors than the other investment sectors, but they are fully secured sector for investment. Government issued government securities for national economic growth but different commercial and joint ventures bank target to make maximum profit. So banks invest their excess fund on government securities for diversification of investment. More funds investing in government securities by the bank are not preferable to achieve the banks goal.

This ratio is calculated by dividing investment on government securities by total current assets as presented in table 4.4.

**Table 4.4**

**Investment on Government Securities to Current Assets Ratio**

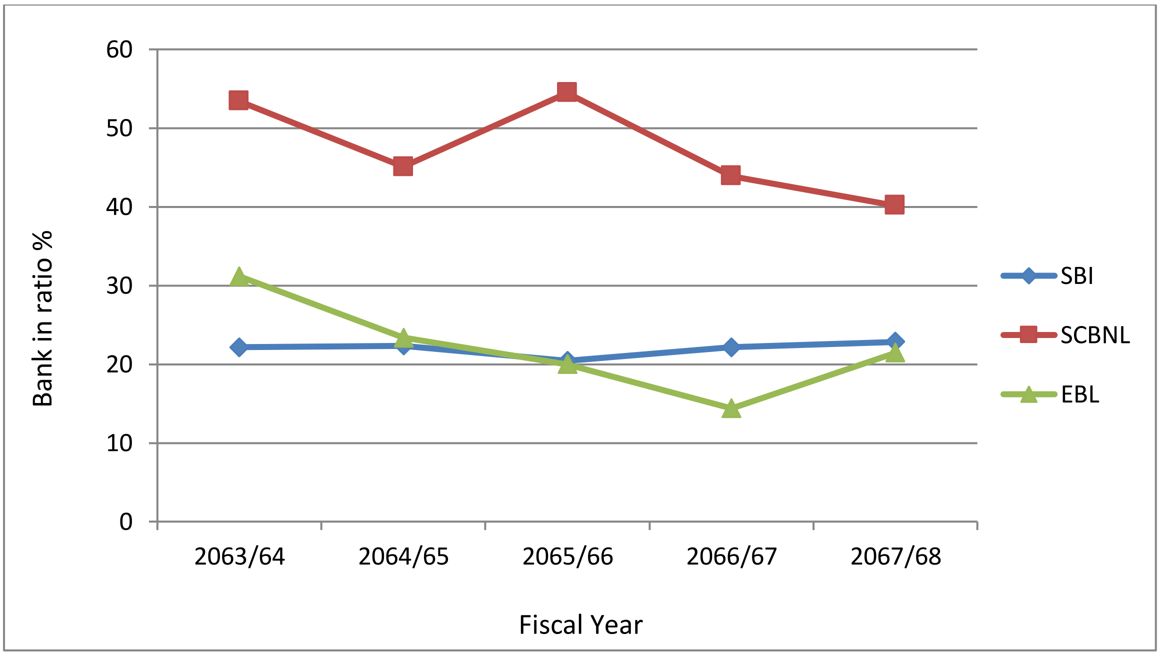
(In Percentage)

| Banks | Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2063/64 | 2064/65 | 2065/66 | 2066/67 | 2067/68 | Mean | S.D | C.V% |
| SBI | 22.16 | 22.36 | 20.43 | 22.14 | 22.82 | 21.98 | 0.81 | 3.70 |
| SCBNL | 53.43 | 45.09 | 54.45 | 43.91 | 40.14 | 47.40 | 5.59 | 11.79 |
| EBL | 31.16 | 23.35 | 19.98 | 14.38 | 21.44 | 22.06 | 5.44 | 24.67 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix - D)*

**Figure 4.4**

**Investment on Govt. Securities to Current Assets Ratio**




From the table and figure 4.4 it is seen that ratio of all banks are in fluctuating trend. Considering the average ratio of the entire bank, we can say that the EBL has maintained the high ratio. CV of SBI is less than SCBNL and EBL. Which means the variability of SBI is more consistent and homogeneous than that of SCBNL and EBL

Thus, in conclusion what we can say is SBI has invested its more portions of current assets on government securities than EBL and SCBNL bank. Also it is concluded that the SBI's liquidity position from investment on government securities point of view is in greater position than the other two banks.

### 4.1.1.5 Loans and Advances to Current Assets Ratios

The banks should not keep its all collected funds as cash and bank balance but they should invest as loans and advances to the customers to make more profit by mobilizing fund in the best way. It should pay interest on those unutilized deposit funds and may lose some earning if a does not granted sufficient loans and advances. But high loan and advances may also be harmful to keep the bank in most liquid position because they can be collected at the time of maturity only. Thus bank must maintain its loan and advances in an appropriate way.

The table below shows the ratio of loan and advances to current assets ratio of SBI, SCBNL and EBL.

**Table 4.5**

**Loan and Advances to Current Assets Ratio**

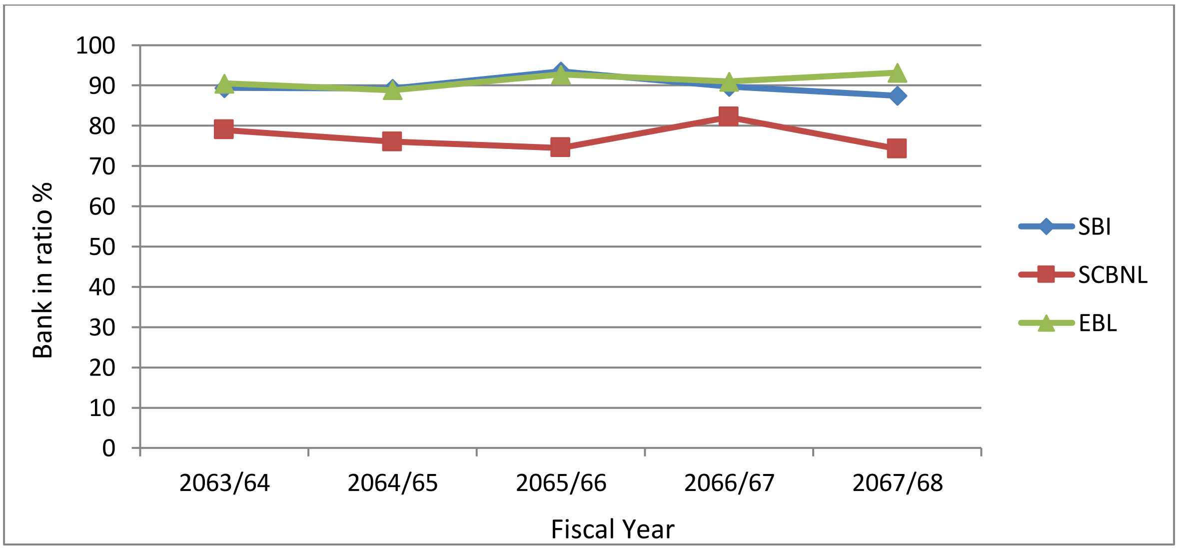
(In Percentage)

| **Banks** | **Fiscal Year** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 89.38 | 89.24 | 93.51 | 89.73 | 87.46 | 89.86 | 1.99 | 2.21 |
| SCBNL | 78.94 | 76.01 | 74.50 | 82.13 | 74.28 | 77.17 | 2.99 | 3.87 |
| EBL | 90.49 | 88.82 | 92.74 | 90.99 | 93.19 | 91.25 | 1.58 | 1.74 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix- E)*

**Figure 4.5**

**Loan and Advances to Current Assets Ratio**



From the table and figure 4.5 it is seen that the ratio of loans and advances of SBI bank is decreasing trend from 2063/64 to till 2064/65 and again increasing in 2065/66 and then decreasing from 2065/66 to 2067/68. Likewise, the ratio of SCBNL is decreasing trend from the FY 2063/64 to 2065/66 and increasing in 2066/67 and decrease in 2067/68. The ratios of EBL are in fluctuating trend.

While calculating the average ratios, EBL has the highest ratios than the other two banks and SCBNL has maintained the lowest among the three banks. With the view of CV, SCBNL >SBI <EBL, thus EBL is more consistent than the two banks.

Thus, what we can conclude saying is the EBL has not maintained the satisfactory level of the loans and advances to current assets ratios. It means the bank is poor to mobilize its fund as loans and advances with respect to current assets than the other two banks. The overall liquidity position of the other two banks SBI and SCBNL bank is satisfactory. And the SCBNL has maintained the highest ratio that implies that it has used the most of its fund from the current assets for loans and advances.

### 4.1.2 Assets Management Ratio (Activity Ratio)

This 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 earn high profit. Under this ratios the following ratios are calculated which are as follows.

#### 4.1.2.1 Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loans and advances. The table below shows the ratio of loan and advances to total deposit ratio of the three sampled banks.

**Table 4.6**

**Loan and Advance to Total Deposit Ratio**

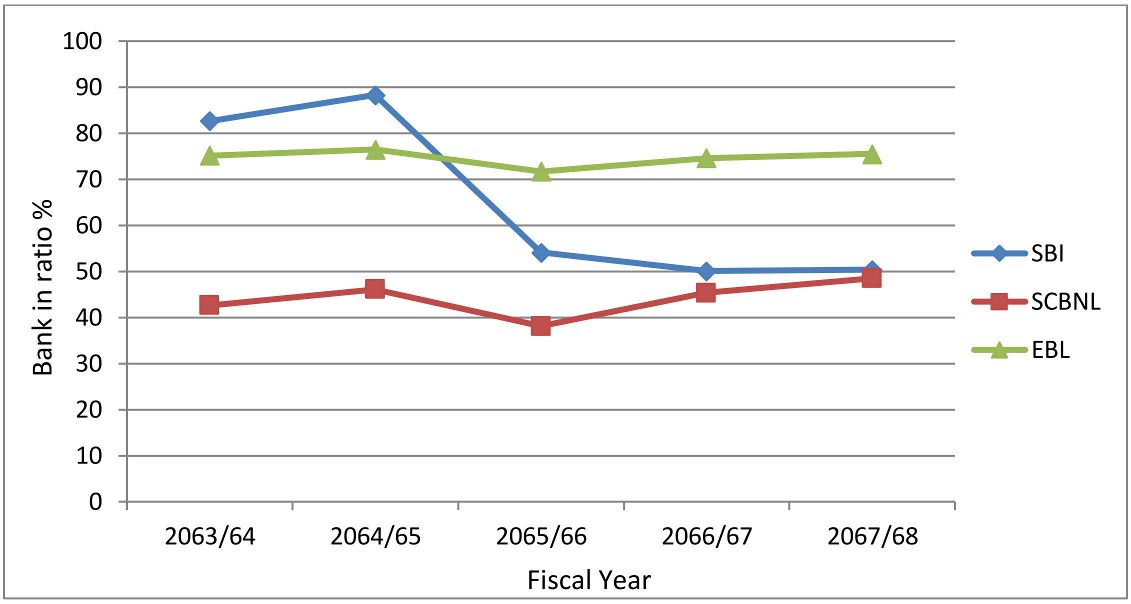
(In Percentage)

| Banks | Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2063/64 | 2064/65 | 2065/66 | 2066/67 | 2067/68 | Mean | S.D | C.V% |
| SBI | 82.65 | 88.32 | 54.12 | 50.09 | 50.37 | 65.11 | 16.79 | 25.79 |
| SCBNL | 42.61 | 46.12 | 38.13 | 45.35 | 48.49 | 44.14 | 3.54 | 8.03 |
| EBL | 75.13 | 76.48 | 71.68 | 74.61 | 75.51 | 74.68 | 1.62 | 2.17 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix - F)*

**Figure 4.6**

**Loan and Advance to Total Deposit Ratio**




The ratios of all the sampled banks are in fluctuating trend. SBI has the higher ratio in F/Y 2064/65, SCBNL has the highest ratio in F/Y 2067/68 and EBL has the highest ratio in F/Y 2064/65. This shows that SBI bank have mostly used total deposit fund into loan and advances in the year 2064/65. SCBNL used total deposit fund into loan and advances in the year 2067/68 & EBI used total deposit fund into loan and advances in the year 2064/65.

The mean ratio of EBL is the highest and SCBNL is the lowest. The EBL has the satisfactory level of the ratio of the loan and advances. CV of SBI>SCBNL >EBL. Thus it implies that EBL is more consistent than the SBI and SCBNL.

Thus, in conclusion we can say that although the EBL bank has the highest in average than the other two banks, the high ratio is not better from the point of view of liquidity as the loan and advances is not as liquid as cash and bank balance. Although high ratio generate more income to the bank but there are so many factors to be considered while managing the loan management of bank assets which are like: risk analysis, compensation policy, diversification, social responsibility, bank’s credit policy, limit of lending power etc.

### 4.1.2.2 Total Investment to Total Deposit Ratio

Commercial banks mobilize its deposits by investing its fund in different securities issued by government and other financial and non- financial institution. This ratio measures the extent to which the banks are able to mobilize their deposits on investment in various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa. Here, total investment includes government securities, shares, debentures and others.

The table 4.7 shows the ratio of the three sampled banks.

**Table 4.7**

**Total Investment to Total Deposit Ratio**

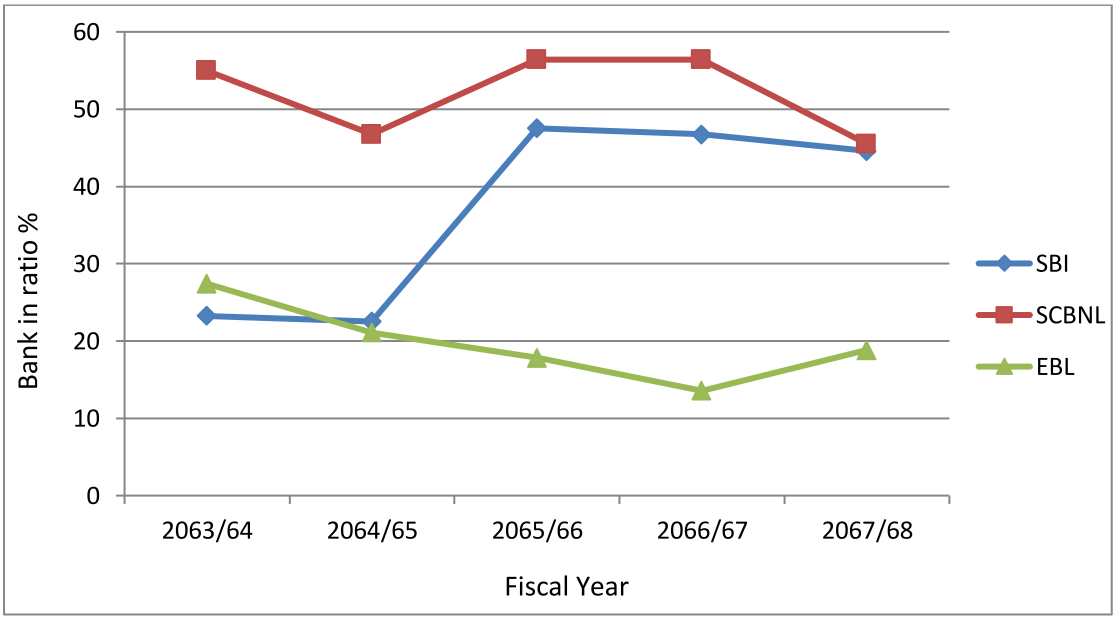
(In Percentage)

| Banks | Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 23.24 | 22.52 | 47.52 | 46.73 | 44.58 | 36.92 | 11.50 | 31.16 |
| SCBNL | 54.99 | 46.74 | 56.41 | 56.41 | 45.51 | 52.01 | 4.85 | 9.33 |
| EBL | 27.41 | 21.10 | 17.85 | 13.56 | 18.82 | 19.75 | 4.55 | 23.02 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detailed in Appendix - G)*

**Figure 4.7**

**Total Investment to Total Deposit Ratio**



The ratio trend of SBI, EBL and SCBNL are in fluctuating trend. The bank which has maintained the highest ratio is SCBNL and the lowest is EBL and the SBI has the satisfactory level of the ratio.

SCBNL has the highest mean and EBL has the lowest mean. SBI has satisfactory ratio. The CV of SBI>EBL>SCBNL, thus the SCBNL is more consistent that the two banks. Thus it is clear from the table that the SCBNL has mobilized more of its total deposit on total investment. Hence, SBI has not mobilized more of its total deposits on total investment.

#### 4.1.2.3 Loan and Advance to Total Working Fund Ratio

Loan and advance is an important part of total assets (total working fund). Commercial banks must be very careful in mobilizing its total assets. As loan and advances is an appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets in loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances and vice versa. Here, total working fund is the total assets, which are composed up of current assets, fixed assets, miscellaneous assets and investment: Loan for development banks etc.

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

**Table 4.8**

**Loan and Advance to Total Working Fund Ratio**

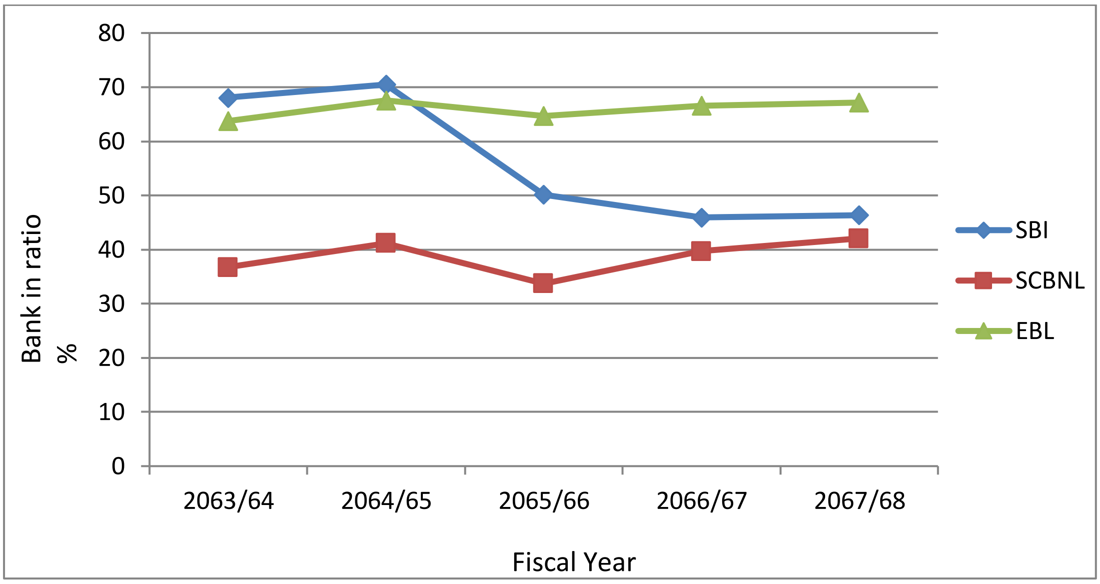
(In Percentage)

| **Banks** | **Fiscal Year** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 68.05 | 70.48 | 50.16 | 45.94 | 46.36 | 46.20 | 10.80 | 19.21 |
| SCBNL | 36.73 | 41.15 | 33.70 | 39.68 | 42.06 | 38.66 | 3.07 | 7.94 |
| EBL | 63.75 | 67.55 | 64.69 | 66.58 | 67.17 | 65.95 | 1.47 | 2.24 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Details in Appendix - H)*

**Figure 4.8**

**Loan and Advance to Total Working Fund Ratio**




The ratios of SBI, SCBNL and EBL have the fluctuating trend. The ratio of SBI is in increasing trend from F/Y 2063/64 to till 2064/65 and decrease in F/Y 2065/66 to F/Y 2066/67 and increase in F/Y 2067/68. Likewise, the ratio of SCBNL is in increasing trend from the F/Y 2063/64 to 2064/65 and decreasing in 2065/66 and increase from 2066/67 to F/Y 2067/68.The ratio of EBL is in increasing trend from F/Y 2063/64 to F/Y 2064/65 and decrease in F/Y 2065/66 and increase from F/Y 2066/67 to F/Y 2067/68.

The mean ratio shows that the EBL has the highest ratio, the SCBNL has the lowest and the SBI has the moderate level of ratios among the three banks. It shows SCBNL has the weak condition in mobilizing its total working fund as loans and advances. The CV of SBI>SCBNL>EBL bank, thus, EBL is more consistent that the two banks.

EBL has the satisfactory level of the fund mobilization in terms of loan and advances with respect to total working fund. However SCBNL has used very less amount of its total working fund in terms of loans and advances.

**4.1.2.4 Investment on Government Securities to Total Working Fund Ratio**

All the deposit of the bank should not be utilized in loans and advances and other credit from security and liquidity point of view. Therefore, up to some extent commercial banks seem to be interested to utilize their deposits by purchasing government securities. The ratio of investment on government securities to total working fund is very helpful to know the extent on which the banks are mobilizing their total working fund on different types of government securities. All the commercial banks are to invest their fund on government's securities for investment diversification and security only. Investment on government securities is not helpful to the commercial banks for the profit maximization.

The following table exhibits the ratio of investment on government securities to total working fund of the three sampled banks.

**Table 4.9**

**Investment on Government Securities to Total Working Fund Ratio**

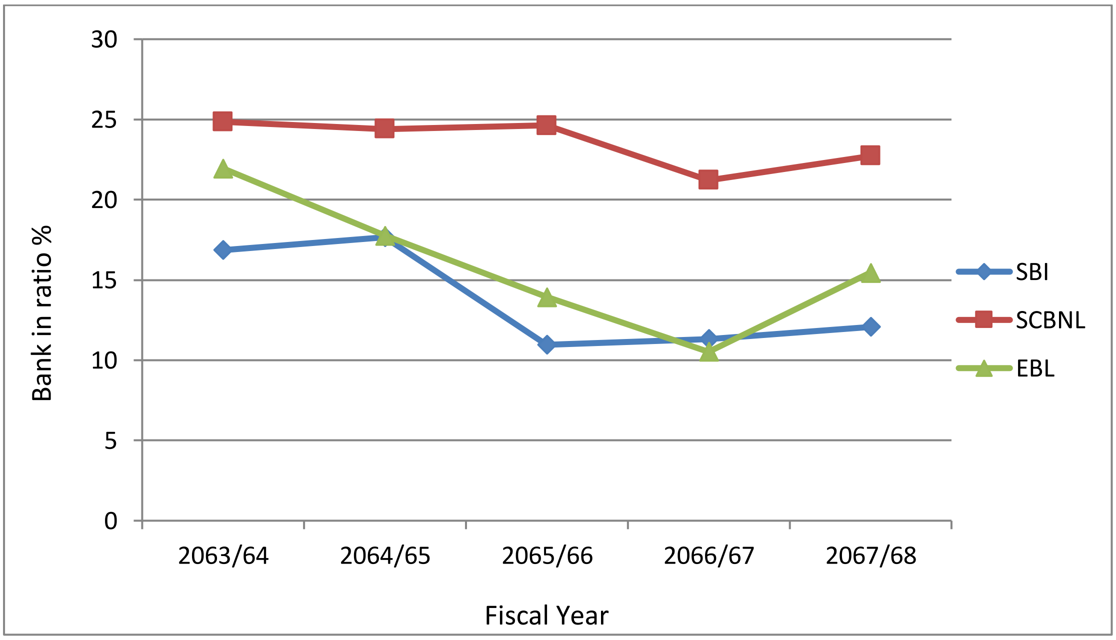
(In Percentage)

| **Banks** | **Fiscal Year** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 16.87 | 17.66 | 10.96 | 11.33 | 12.09 | 13.78 | 2.88 | 20.88 |
| SCBNL | 24.85 | 24.41 | 24.63 | 21.21 | 22.73 | 21.29 | 5.15 | 24.21 |
| EBL | 21.95 | 17.76 | 13.94 | 10.52 | 15.45 | 15.92 | 3.82 | 24.00 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix I)*

**Figure 4.9**

**Investment on Government Securities to Total Working Fund Ratio**



The ratios of SCBNL, EBL and SBI banks are in fluctuating trend. Looking at the mean ratio, SCBNL has the highest, SBI has the lowest and the EBL has the moderate rate than the two banks.

CV of SBI< EBL<SCBNL, which implies SCBNL is more consistent than the other two banks. With the higher mean ratio, SCBNL has the better position in the ratio of investment on government securities to total working fund.

Thus from the above table it can be seen that the SCBNL has utilized most of its total working fund in investment of government securities. EBL has utilized less of its current assets to the investment in government securities than the other two banks and the SBI has moderately used the satisfactorily level of its current assets to the investment on government securities.

#### 4.1.2.5 Investment on Share and Debentures to Total Working Fund Ratio

JVBs are investing into shares and debentures of other companies. The investment in government securities is relatively safer than investment in shares and debentures of other companies. This ratio shows to what extent the bank has successful in investment of its assets on other company's debentures and shares to generate incomes and utilize their excess funds. A high ratio indicates more portion of investment on shares and debentures.

The following table exhibits the ratio of investment on shares and debentures to total working fund of the three sampled banks.

**Table 4.10**

**Investment on Shares and Debentures to Total Working Fund Ratio**

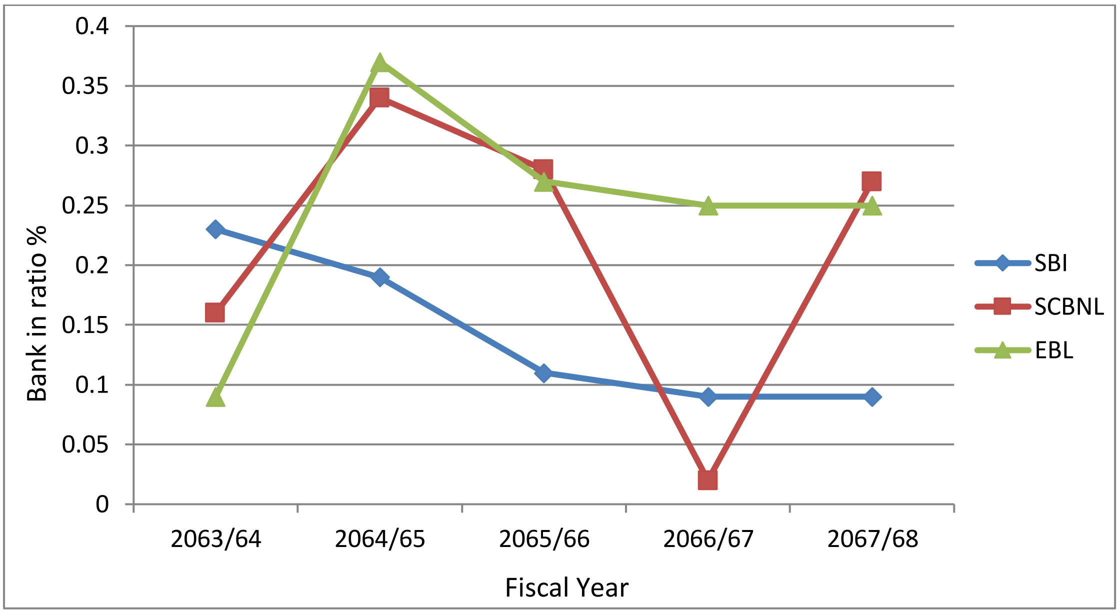
(In Percentage)

| Banks | Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2063/64 | 2064/65 | 2065/66 | 2066/67 | 2067/68 | Mean | S.D | C.V % |
| SBI | 0.23 | 0.19 | 0.11 | 0.09 | 0.09 | 0.14 | 0.06 | 40.43 |
| SCBNL | 0.16 | 0.34 | 0.28 | 0.02 | 0.27 | 0.21 | 0.11 | 52.83 |
| EBL | 0.09 | 0.37 | 0.27 | 0.25 | 0.25 | 0.25 | 0.09 | 36.50 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix- J)*

**Figure 4.10**

**Investment on Share and Debenture to Total Working Fund Ratio**




The above table shows that all the ratios of all the banks are in fluctuating trend. SBI has the highest in F/Y 2063/64 and the lowest in F/Y 2066/67 & F/Y 2067/68. Also the SCBNL has the highest in F/Y 2064/65 and the lowest in F/Y year2066/67. Similarly the bank EBL has the highest in 2064/65 and the lowest in year 2063/64.

On the basis of the mean ratios the EBL has the highest, SBI has the lowest and the SCBNL has the moderate ratio than the two banks. CV of SCBNL>SBI>EBL. Thus, EBL is more consistent that the two banks.

Thus, EBL has the good position of investment on shares and debentures to total working fund. Whereas, SBI has weak position in investment on shares and debentures to total working fund.

### 4.1.3 Profitability Ratio

The major objective of any commercial bank is to make profit. Sufficient profit is a must to have good liquidity, grab investment opportunities, expand business transaction, and finance government in need of development fund. No bank can survive without profit. It is the indicator of the efficient operation of a bank. The bank makes profit by providing different services to its customers or by making investment of different kinds.

Profitability ratio measures the efficiency of a bank. Higher the ratio higher will be the efficiency of a bank and vice versa.

### 4.1.3.1 Return on Total Working Fund / Return on Total Assets Ratio

Return on total working fund ratio measures the profitability with respect to each financial resources, investment of the bank assets and also to find whether the banks working fund is well managed and efficiently utilized. Return on total assets should be higher. Minimizing taxes within the legal options available will also improve the return. The ratio can be ascertained from the following formula:

$$\text{Return to total Working Fund} = \frac{\text{Net Profit}}{\text{Total Working Funds}}$$

The following table shows the profitability position of the samples banks.

**Table 4.11**

**Return on Total Working Fund Ratio**

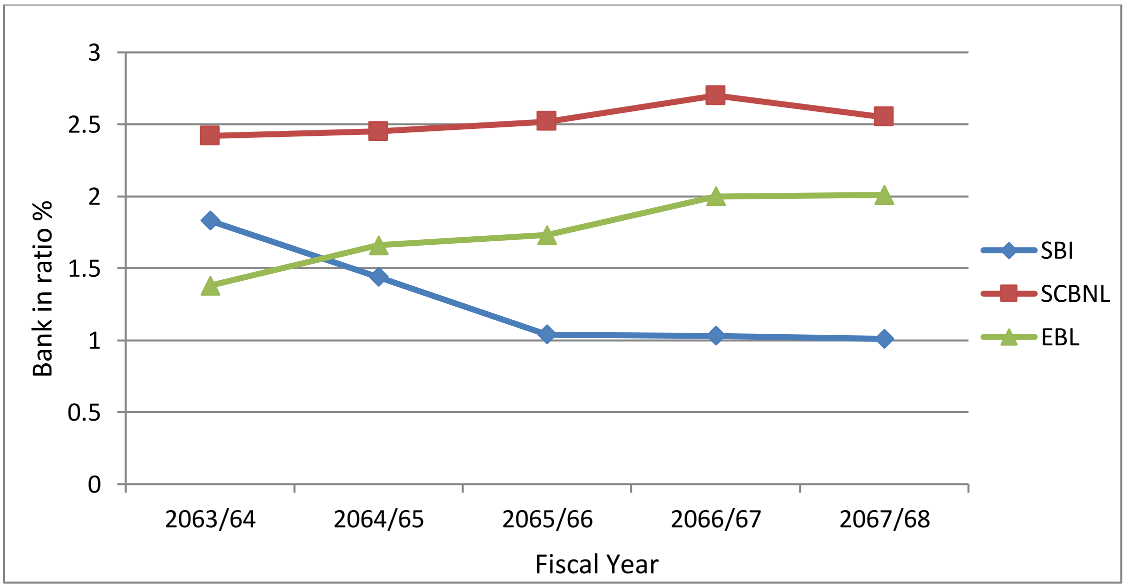
(In Percentage)

| Banks | Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 1.83 | 1.44 | 1.04 | 1.03 | 1.01 | 1.27 | 0.32 | 25.41 |
| SCBNL | 2.42 | 2.45 | 2.52 | 2.70 | 2.55 | 2.53 | 0.10 | 3.87 |
| EBL | 1.38 | 1.66 | 1.73 | 2.00 | 2.01 | 1.76 | 0.23 | 13.36 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix - K)*

**Figure 4.11**

**Return on Total Working Fund Ratio**



From the table the profitability of the bank are in fluctuating trend. When observing the mean ratio SCBNL has the highest ratio among the SBI and EBL thus, SCBNL is highly efficient to earn net profit and return as well. On the other hand CV of SCBNL is the lowest than the two other banks.

Thus from the analysis, it can be said that SCBNL is in strong position in the earning capacity, by utilizing available resources than the other banks. However, CV of SCBNL is the lowest than SBI and EBL so SCBNL is significant and consistently more stables too to earn capacity maintained and net profit generated than the other two banks.

#### 4.1.3.2 Total Interest Earned to Total Outside Assets Ratio

It reflects that the extent to which the bank is successful to earn interest as major income on all the outside assets. Higher the ratio higher will be the earning power of total outside assets. This is very important ratio as the main assets are the outside assets of a commercial bank. We calculate this ratio as:

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

Total outside assets includes, loans and advances for commercial banks, government securities, shares, debentures and others.

The following table shows the total interest earned to total outside assets ratio of SBI, SCBNL and EBL.

**Table 4.12**

**Total Interest Earned to Total Outside Assets Ratio**

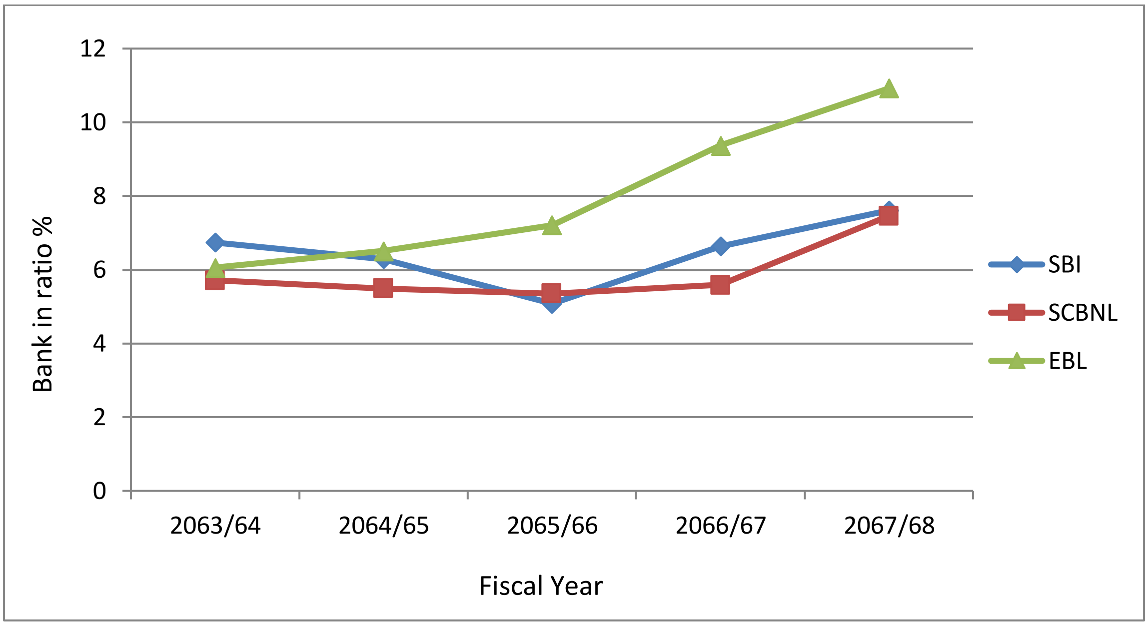
(In Percentage)

| Banks | Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2063/64 | 2064/65 | 2065/66 | 2066/67 | 2067/68 | Mean | S.D | C.V% |
| SBI | 6.74 | 6.29 | 5.08 | 6.64 | 7.61 | 6.47 | 0.82 | 12.68 |
| SCBNL | 5.71 | 5.49 | 5.35 | 5.59 | 7.46 | 5.92 | 0.78 | 13.16 |
| EBL | 6.06 | 6.51 | 7.21 | 9.37 | 10.92 | 8.01 | 1.84 | 23.02 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix - L)*

**Figure 4.12**

**Total interest Earned to Total Outside Assets Ratio**




This shows that all the banks follow the fluctuating trend in the total interest earned to total outside assets ratio. From the view point of mean ratio the EBL bank has the highest ratio, SCBNL has the lowest mean ratio and the SBI has the moderate ratio. Thus this shows that EBL is earning high interest income from the outside assets. Hence, SCBNL has not been successfully earning high interest income from the outside assets. EBL whereas earns high interest income from the outside assets than the SBI but less than the SCBNL. On the other hand CV of EBL is more than the SCBNL and SBI as it has the less CV.

### 4.1.3.3 Total Interest Earned to Total Working Fund

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

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

The following table shows the total interest earned to total working fund ratio of SBI, SCBNL and EBL

**Table 4.13**

**Total Interest Earned to Total Working Fund Ratio**

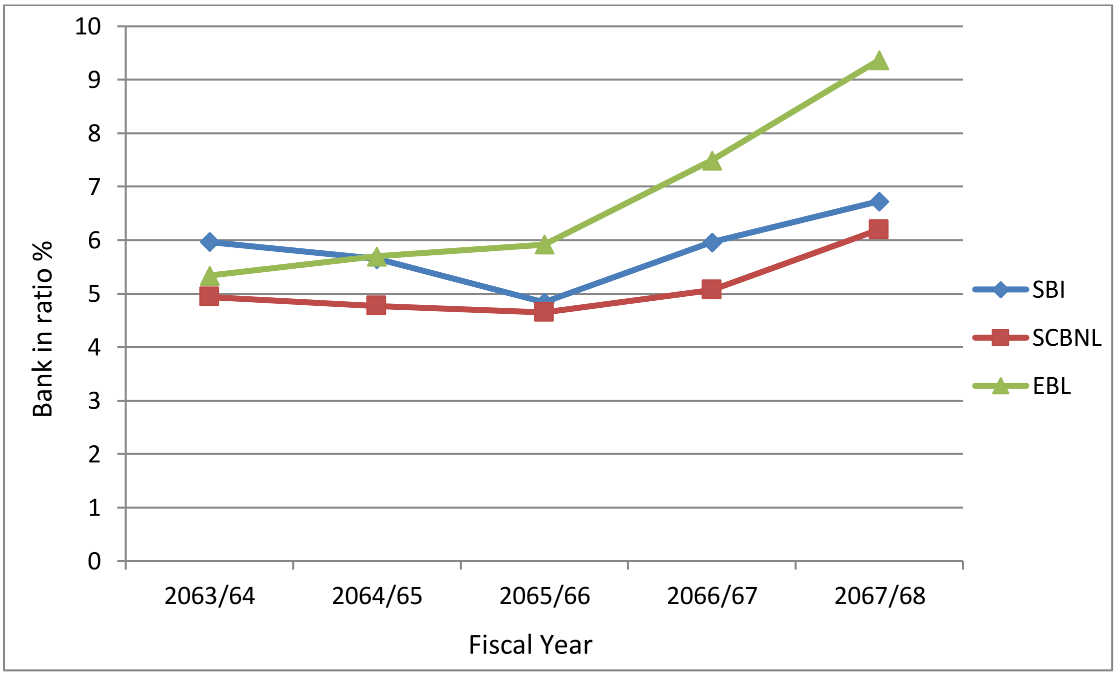
(In Percentage)

| **Banks** | **Fiscal Year** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 5.97 | 5.65 | 4.84 | 5.96 | 6.73 | 5.83 | 0.61 | 10.46 |
| SCBNL | 4.94 | 4.77 | 4.65 | 5.07 | 6.20 | 5.13 | 0.56 | 10.84 |
| EBL | 5.34 | 5.70 | 5.92 | 7.49 | 9.37 | 6.76 | 1.50 | 22.12 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix - M)*

**Figure 4.13**

**Total Interest Earned to Total Working Fund Ratio**




The above table shows that the banks ratios are in fluctuating trend. With the view point of mean ratio the bank EBL has the highest ratio among the bank SBI and SCBNL. This means that the EBL is in higher position to earn interest to total working fund. Whereas SCBNL has the lowest in mean ratio which depicts that SCBNL is in lower position to generate interest income from the total working fund. SBI has satisfactory level of generating interest income from total working fund ratio. CV of SBI is less than the SCBNL and EBL.

Thus we can conclude that EBL is able to earn high interest return from the total working fund than the SCBNL and SBI bank because high ratio is an indicator of high earning power of the bank of its total working fund and vice versa.

### 4.1.3.4 Total interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund. We have,

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

The following table shows the total interest paid to total working fund ratio of SBI bank, SCBNLL and EBL.

**Table 4.14**
**Total Interest Paid to Total Working Fund Ratio**

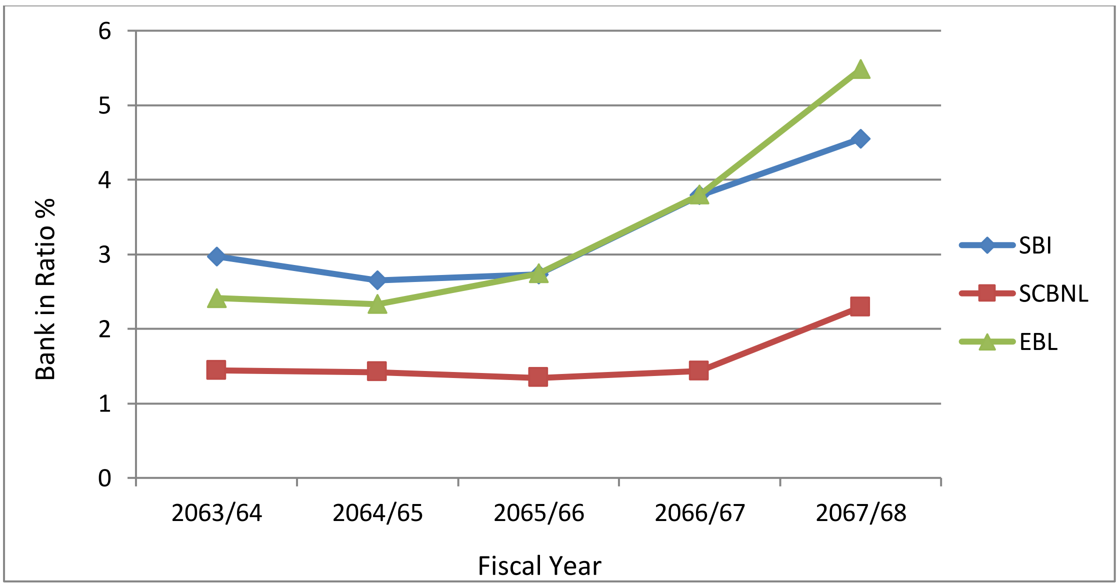
(In Percentage)

| Banks | Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 2.97 | 2.65 | 2.73 | 3.79 | 4.55 | 3.34 | 0.73 | 21.82 |
| SCBNL | 1.44 | 1.42 | 1.34 | 1.43 | 2.29 | 1.58 | 0.35 | 22.40 |
| EBL | 2.41 | 2.33 | 2.74 | 3.80 | 5.48 | 2.71 | 0.57 | 20.84 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix - N)*

**Figure 4.14**

**Total Interest Paid to Total Working Fund Ratio**



From the above table and figure we can say that the ratio of SBI, SCBNL and EBL banks are in fluctuating trend. Looking at the mean ratio, SBI has the highest mean ratio which means that the SBI is higher in paying interest on total working fund. Hence, SCBNL is the lowest among the three banks in interest paying on total working fund. EBL has relatively satisfactorily level of interest paid on the respect of total working fund than the other two banks. Similarly, with the view of CV, EBL has the lowest CV than and SBI which means EBL is more consistent than the two banks.

Thus in conclusion, we can say that the SCBNL has paid more interest to the total working fund than the two other banks and it is more consistent that the other two banks.

### 4.1.4 Risk Ratios

Risk is always related with the return. When there is return there is risk. Higher the risk higher will be the return and vice versa. If a bank expects high return on investment then there is the involvement of high risk. Therefore the bank has to accept and manage high risk to get high profit. Analyzing the risk factor on investment is a very challenging job. Thus we can easily say, risk has made the job of investment a very challenging one.

#### 4.1.4.1 Credit Risk Ratio

Bank makes investment by utilizing its collected fund. The credit ratio measures the risk behind making investing or granting loan. The ratio is very important to a bank as it scrutinize the project, which means to analyze or calculate the risk involved in the project to avoid default or non-payment of loan before making investment on the project. The proportion of non-performing assets shows the credit risk ratio in total loans and advances of a bank. But unavailability of related data the ratio is calculated with the help of loan and advances and total assets. We know the credit risk ratio is calculated as

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

The following table shows the credit risk ratio of SBI bank, SCBNLL and EBL.

**Table 4.15**

**Credit Risk Ratio**

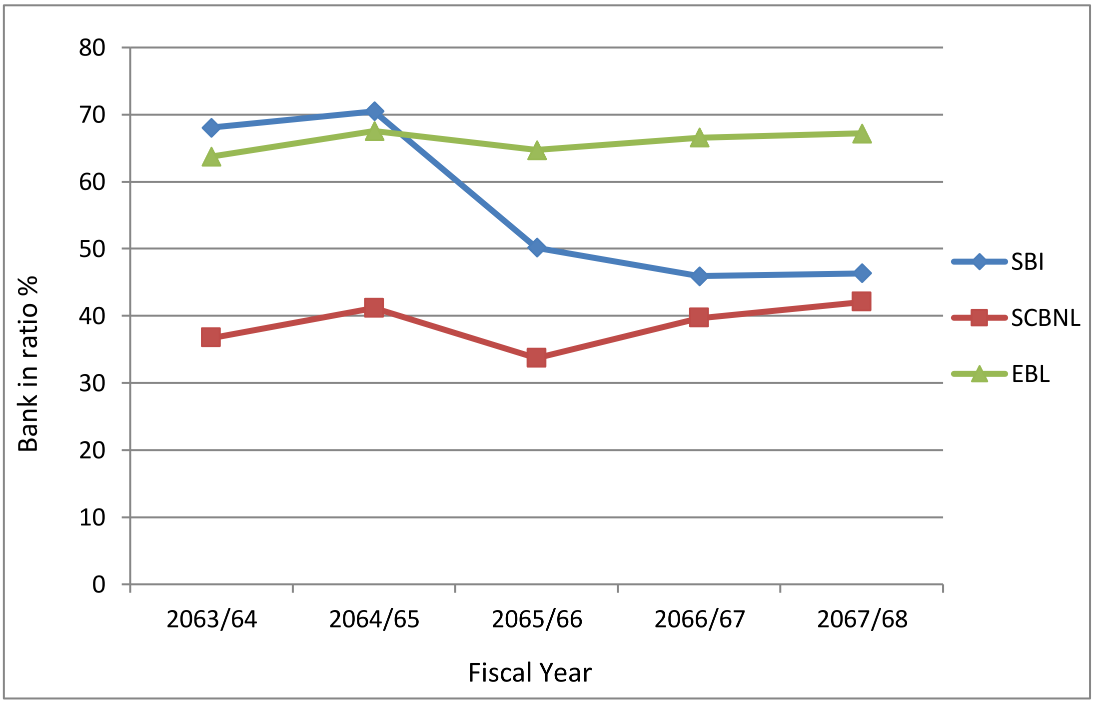
(In Percentage)

| **Banks** | **Fiscal Year** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | **Mean** | **S.D** | **C.V%** |
| SBI | 68.05 | 70.48 | 50.16 | 45.94 | 46.36 | 56.20 | 10.80 | 19.21 |
| SCBNL | 36.73 | 41.15 | 33.71 | 39.68 | 42.06 | 38.67 | 3.07 | 7.93 |
| EBL | 63.75 | 67.55 | 64.69 | 66.58 | 67.17 | 65.95 | 1.47 | 2.24 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Detail in Appendix - O)*

**Figure 4.15**

**Credit Risk**




The ratios of credit risk are in fluctuating trend of all the banks from the F/Y 2063/64 to 2067/68. The EBL bank has the highest mean as compare to the mean of SBI and SCBNL, which means that the EBL has the higher credit risk in compare to other banks. Similarly SCBNL has less credit risk analysis on its investment with its low mean ratio than all the banks. Regarding CV, EBL has less CV than the SBI and SCBNL.

Thus in conclusion we can say that the bank EBL has adopted a high credit risk policy than the two other banks and that SCBNL has adopted less credit risk policy and SBI has adopted satisfactory level of the policy. As CV of EBL is less so it is more consistent than the other two banks.

#### 4.1.4.2 Liquidity Risk Ratios

Liquidity risk ratio of banks defines its liquidity need for deposits. Cash and bank balance are the most liquid assets. The ratio of cash and bank balance to total deposits is an indicator of banks liquidity needs. If the funds are kept idle the risk will be low but it directly affects profitability making low profit. When bank gives loan, it charges high interest rate so that profitability increases and also risk. Thus higher liquidity ratio indicates less risk and less profitable return.

Here we have considered the cash and bank balance to total deposit ratio, which have been already calculated in the liquidity ratios in table no 2 with the detail in Appendix B. The cash and bank balance total deposits are in fluctuating trend. Mean ratio of SCBNL is lower than the two banks but CV of SBI is lower than the two banks. It means that the ratio of SBI is less variable than that of other two banks. SBI has maintained the lower liquidity risk ratio that means it operates with higher risk for higher profit. EBL bank has maintained higher mean ratio of cash and bank balance to total deposits ratio so it means the EBL has maintained lower liquidity risk which indicates that the bank is operating with lower risk and lowering profitability.

### 4.1.5 Analysis and Interpretation of Growth Ratios

The growth ratio represents how well the commercial banks are maintaining their economic and financial position. Higher the ratios better the performance of the bank and vice versa. Under this topic those ratios are studied which are directly related to the topic of fund mobilization and the investment management of commercial banks.

**Table 4.16**

**Growth Ratios of Deposits**

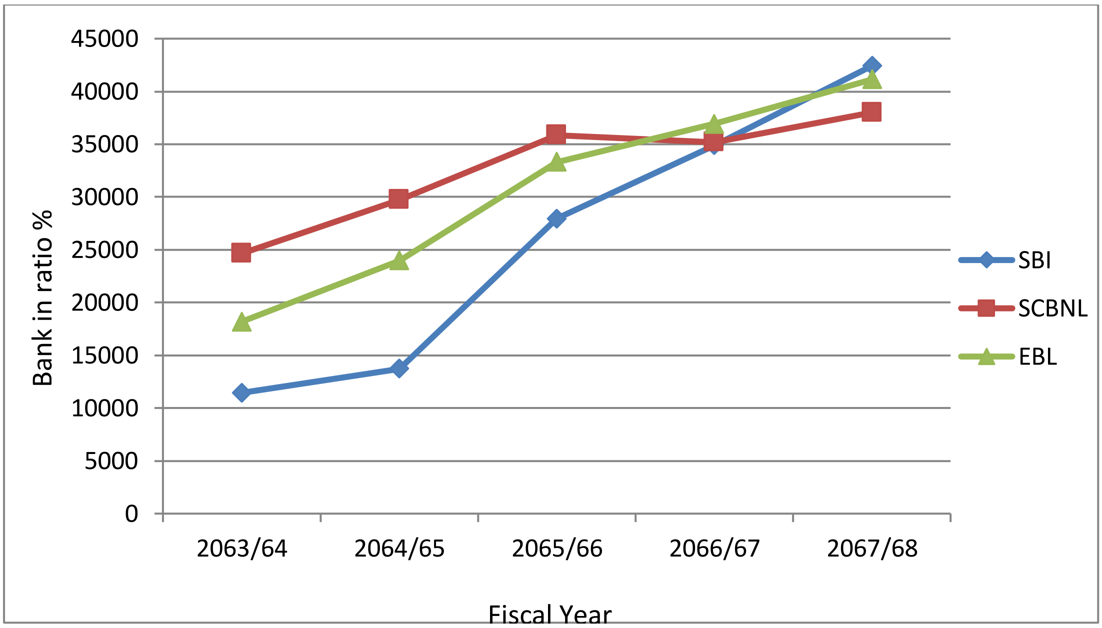
(In Percentage)

| Bank | Fiscal Year | | | | | Growth Ratios % |
|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | |
| SBI | 11445.29 | 13715.39 | 27957.22 | 34896.42 | 42415.44 | 38.74 |
| SCBNL | 24647.02 | 29744.00 | 35871.72 | 35182.72 | 37999.24 | 11.43 |
| EBL | 18186.25 | 23976.30 | 33322.95 | 36932.31 | 41127.91 | 22.62 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Sample detail in Appendix Q of SBI)*

**Figure 4.16**

**Growth Ratio of Deposits**




The deposit here includes deposits from savings account, current account, fixed account call and short deposit and others. From the above table it is shown that the growth ratio of SBI is higher than the two other banks. It means EBL and SCBNL have comparatively lower in the collection of deposits than the SBI.

**Table 4.17**

**Growth Ratios of Loans and Advances**

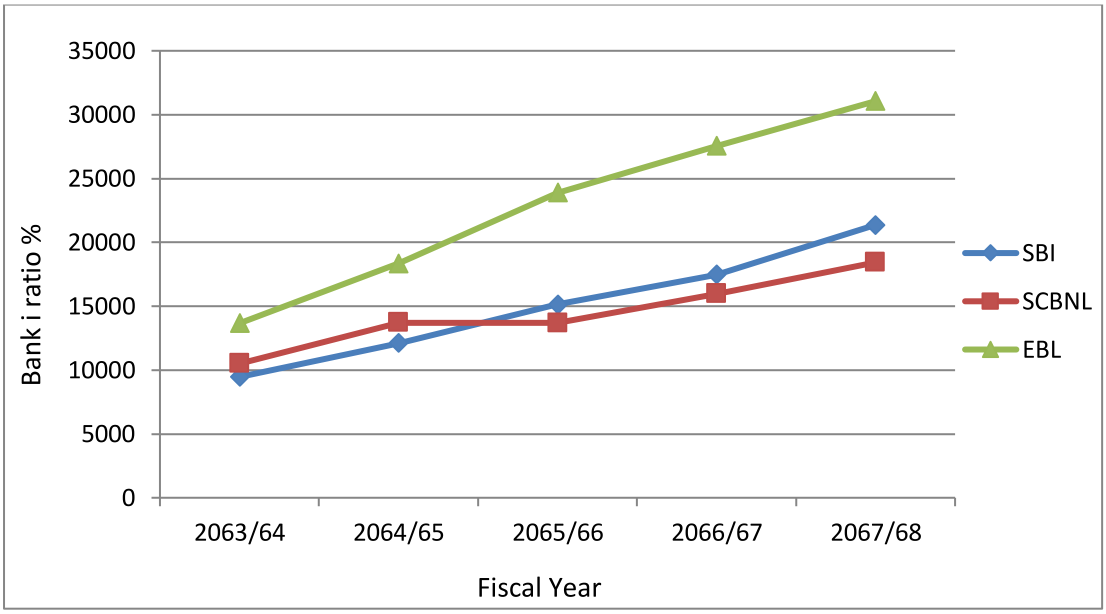
(In Percentage)

| **Bank** | **Fiscal Year** | | | | | **Growth Ratio %** |
|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | |
| SBI | 9460.45 | 12113.70 | 15131.75 | 17480.55 | 21365.77 | 22.59 |
| SCBNL | 10502.64 | 13718.60 | 13679.76 | 15956.96 | 18427.27 | 15.09 |
| EBL | 13664.08 | 18339.09 | 23884.67 | 27556.36 | 31057.69 | 22.78 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Sample detail in Appendix Q of SBI)*

**Figure 4.17**

**Growth Ratio of Loan & Advances**




Here loans and advances include loans, cash credit, overdrafts and bills discounted and purchase. Above table shows that the EBL bank has higher position in granting loans and advances than the two banks. Whereas, SCBNL is in decreasing order in advancing loans and advances. It means the performance of SCBNL to grant loan and advances in comparison to other banks is in lower year by year.

**Table 4.18**

**Growth Ratios of Total Investment**

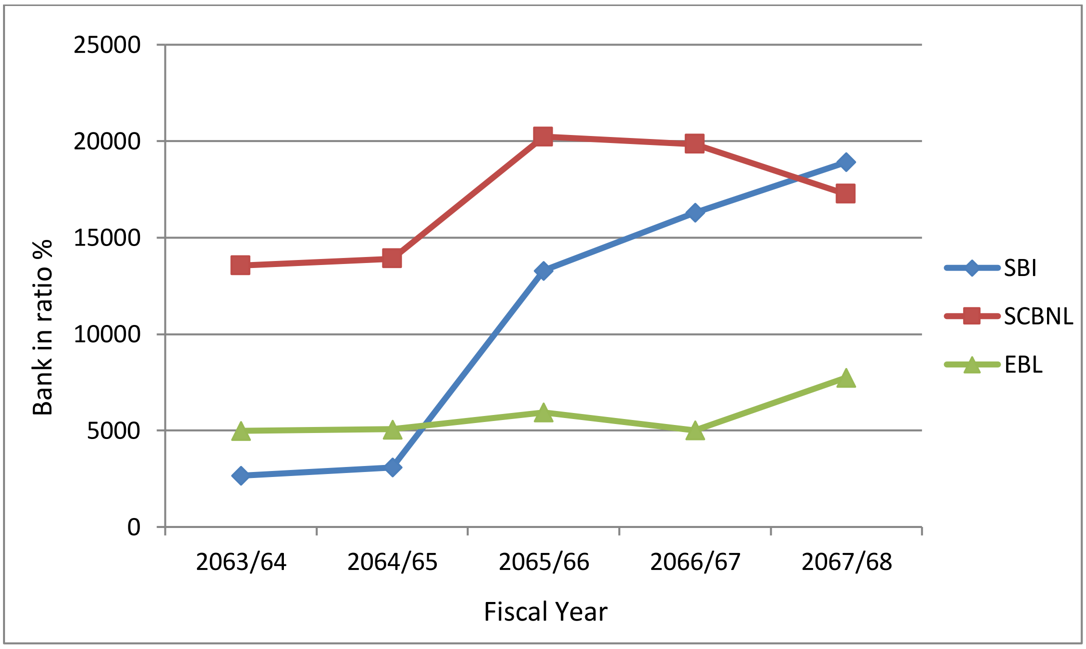
(In Percentage)

| **Bank** | **Fiscal Year** | | | | | **Growth Ratios %** |
|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | |
| SBI | 2659.45 | 3088.89 | 13286.18 | 16305.63 | 18911.02 | 63.33 |
| SCBNL | 13553.23 | 13902.82 | 20236.12 | 19847.51 | 17258.68 | 6.22 |
| EBL | 4984.31 | 5059.56 | 5948.48 | 5008.31 | 7743.92 | 11.65 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Sample detail in Appendix Q of SBI)*

**Figure 4.18**

**Growth Ratio of Total Investment**




Here, total investment includes investment on government securities, investment on shares, debentures and others. The above table shows that the growth rate of total investment of SBI is in highly increasing order. Comparatively EBL are in lower position of the growth rate of the total investment than SBI. But the SCBNL has very less growth rate in comparison

**Table 4.19**

**Growth Ratios of Net Profit**

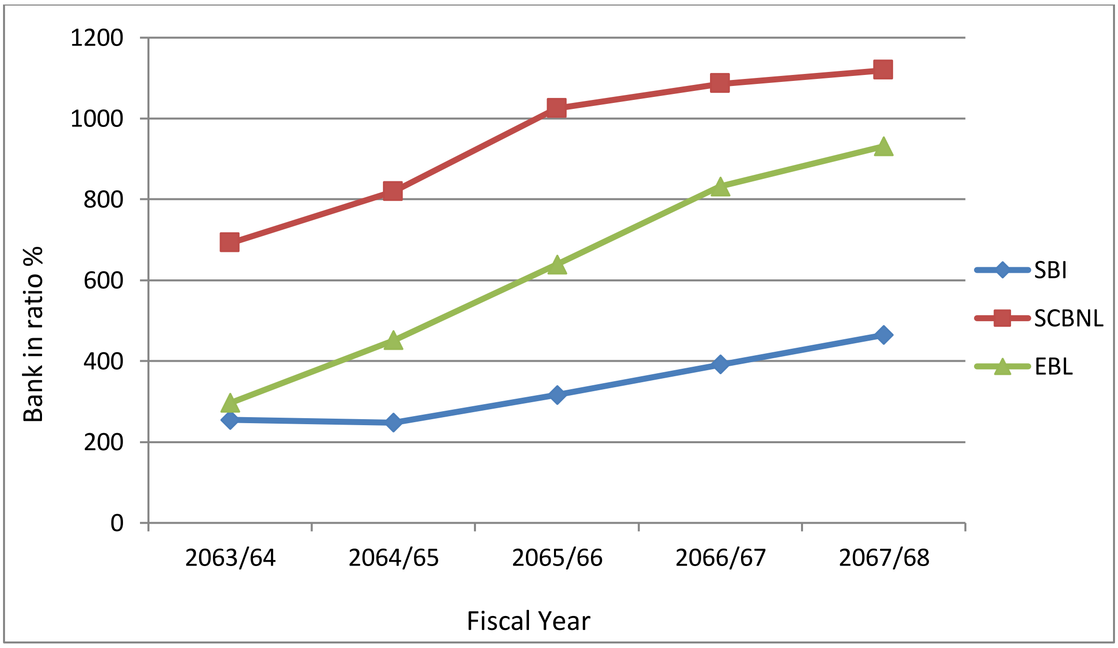
(In Percentage)

| **Bank** | **Fiscal Year** | | | | | **Growth Ratios %** |
|---|---|---|---|---|---|---|
| | **2063/64** | **2064/65** | **2065/66** | **2066/67** | **2067/68** | |
| SBI | 254.91 | 247.78 | 316.37 | 391.74 | 464.57 | 16.19 |
| SCBNL | 691.67 | 818.92 | 1025.12 | 1085.87 | 1119.17 | 12.79 |
| EBL | 296.41 | 451.22 | 638.73 | 831.77 | 931.30 | 33.13 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Sample detail in Appendix Q of SBI)*

**Figure 4.19**

**Growth Ratios of Net Profit**




The above table and figure shows that the growth rate of net profit of EBL is in higher position than two banks. But the SCBNL has very less growth rate in comparison to SBI and EBL.

### 4.2 Statistical Analysis

Here, some statistical tools are used to achieve the objective of the study which is as follows.

### 4.2.1 Coefficient of Correlation Analysis

This analysis helps to find the relationship between different variables, like to find the relationship between deposits and total investment, deposits and loans and advances and between outside assets and net profit. Here, Karl Pearson's coefficient of correlation have been used

#### 4.2.1.1 Coefficient of Correlation between Deposits and Total Investment

The coefficient of correlation between deposits and investment is to measure the degree of relationship between two variables. Here, the deposit is taken as independent variable and denoted by (X) and total investment is dependent variable and denoted by (Y). The purpose of this study is to justify whether the deposits are significantly used in proper way or not.

The table 4.20 shows the Coefficient of correlation between deposits and total investment i.e. 'r', '$r^2$', 'P.Er' and '6P.Er' of SBI, SCBNL and EBL during the study period of F/Y form 2063/64 to 2067/68.

**Table 4.20**

**Correlation between Deposits and Total Investment (%)**

| Banks | Evaluation Criteria | | | |
|---|---|---|---|---|
| | r | $r^2$ | P.E.r | 6P.Er |
| SBI | 0.9910 | 0.9821 | 0.0054 | 0.0324 |
| SCBNL | 0.8087 | 0.6540 | 0.1044 | 0.6264 |
| EBL | 0.6904 | 0.4767 | 0.1578 | 0.9468 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Sample detail in Appendix P)*

In the above table, it is found that the coefficient of correlation between deposits and investment value of SBI is 0.9910 which shows there is positive relationship between the two variables. However, by applying of Coefficient of determination, the value of $r^2$ is 0.9821 which indicates that 98.21% of the variation in the dependent variable has been explained by the independent variable. Further, value of P.Er is 0.0054 and 6P.Er is 0.0324. It shows that the value of Coefficient of correlation (r) is greater than 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the SBI bank has been investing their deposits by highly successful policy.

In case of SCBNL it is found that the coefficient of correlation between deposits and investment value is 0.8087 which shows there is positive relationship between the two variables. By applying of Coefficient of determination, the value of $r^2$ is 0.6540 which indicates that 65.40% of the variation in the investment by the deposits. Further, value of P.Er is 0.1044 and 6P.Er is 0.6264. It shows that the value of Coefficient of correlation (r) is greater than 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the SCBNL bank has been investing their deposits by the policy of maximizing the use of their deposits as investment.

In case of EBL it is found that the coefficient of correlation between deposits and investment value is 0.6904 which shows there is positive relationship between the two variables. By applying of Coefficient of determination, the value of $r^2$ is 0.4767 which indicates that 47.67% of the variation in the investment by the deposits. Further, value of P.Er is 0.1578 and 6P.Er is 0.9468. It shows that the value of Coefficient correlation (r) is greater than 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the EBL has been investing their deposits by the policy of highly maximizing the use of their deposits as investment.

We found from the above study that SBI, SCBNL and EBL have the positive coefficient of correlation (r). Thus we can say SBI, SCBNL and EBL have adopted the policy of maximum investment of their deposits.

#### 4.2.1.2 Coefficient of Correlation between Deposits and Loans and Advances

The main objective of finding this relation is to justify whether deposits are significantly uses as loan and advances in a proper way or not. Here, deposits are taken as independent variable (X) and loans and advances are taken as dependent variable (Y).

The table 4.21 shows the Coefficient of correlation between total deposits and loans and advances calculating ‘r’, ‘$r^2$’, ‘P.Er’ and ‘6P.Er’ of SBI, SCBNL and EBL during the study period of F/Y form2063/64 to 2067/68.

**Table 4.21**

**Correlation between Deposits and Loans and Advances**

(In Percentage)

| **Banks** | **Evaluation Criteria** | | | |
|---|---|---|---|---|
| | **r** | **$r^2$** | **P.E.r** | **6P.Er** |
| SBI | 0.9813 | 0.9629 | 0.0112 | 0.0671 |
| SCBNL | 0.8793 | 0.7733 | 0.0684 | 0.4103 |
| EBL | 0.9967 | 0.9934 | 0.0019 | 0.0119 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Sample detail in Appendix P)*

In case of SBI bank it is found that the coefficient of correlation between deposits and loans and advances value is positive 0.9813 which shows there is positive relationship between the two variables. However, by applying of Coefficient of determination, the value of $r^2$ is 0.9629 which indicates that 96.29% of the variation in the dependent variable has been explained by the independent variable. Further, value of P.Er is 0.0112 and 6P.Er is 0.0671. It shows that the value of Coefficient correlation (r) is highly greater than the 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the SBI bank has been investing their deposits fully on loans and advances.

In case of SCBNL it is found that the coefficient of correlation between deposits and loans and advances value is 0.8793 which shows there is positive relationship between the two variables. By applying of Coefficient of determination, the value of $r^2$ is 0.7733 which indicates that 77.33% of the variation in the loans and advances by the deposits. Further, value of P.Er is 0.0684 and 6P.Er 0.4103. It shows that the value of Coefficient correlation (r) is greater than 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the SCBNL bank is in fully maximizing their deposits in loans and advances

In case of EBL it is found that the coefficient of correlation between deposits and loans and advances value is 0.9977 which shows there is positive relationship between the two variables. By applying of Coefficient of determination, the value of $r^{2\ is}$ 0.9934 which indicates that 99.34% of the variation in the loans and advances by the deposits. Further, value of P.Er is 0.0019 and 6P.Er is 0.0119. It shows that the value of Coefficient correlation (r) is greater than 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the EBL has been investing their deposits by the policy of highly maximizing the use of their deposits as loans and advances.

From the above analysis, it can be concluded that all the three banks are successful in mobilizing their deposits as loans and advances. All the value of r is positive and greater than the value of six times of their probable error. EBL has highest value of r which indicates the better position in mobilizing deposits as loan and advances than the other two banks. SCBNL has the lowest value of r thus; it has not successfully mobilized the deposits in loans and advances then the other two banks. SBI is satisfactorily ok in mobilizing deposits as loans and advances.

#### 4.2.1.3 Coefficient of Correlation between Outside Assets and Net Profit

To measure and evaluate the Coefficient of correlation between the two variables that is total outside assets and net profit, Karl Person's Coefficient of correlation has been calculated under this topic. Here, total outside asserts is independent variable (X) and net profit is dependent variable (Y). The purpose of computing correlation of coefficient is to justify whether the net profit is significantly correlated with respect to total assets or not.

The table 4.22 shows the Coefficient of correlation between outside assets and net profit calculating 'r', '$r^2$', 'P.Er' and '6P.Er' of SBI , SCBNL and EBL during the study period of F/Y form2063/64 to 2067/68.

**Table 4.22**

**Coefficient of Correlation between Outside Assets and Net Profit**

(In Percentage)

| Banks | Evaluation Criteria | | | |
|---|---|---|---|---|
| | r | $r^2$ | P.E.r | 6P.Er |
| SBI | 0.9640 | 0.9293 | 0.0213 | 0.1279 |
| SCBNL | 0.9939 | 0.9878 | 0.0037 | 0.0221 |
| EBL | 0.9857 | 0.9717 | 0.0085 | 0.0512 |

*(Source: Annual Report of SBI/SCBNL/EBL) (Sample detail in Appendix P)*

In case of SBI bank it is found that the coefficient of correlation between outside assets and net profit value is 0.9640 which shows there is positive relationship between the two variables. However, by applying of Coefficient of determination, the value of $r^2$ is 0.9293 which indicates that 92.93% of the variation in the dependent variable has been explained by the independent variable. Further, value of P.Er is 0.0213 and 6P.Er is 0.1279. It shows that the value of Coefficient of correlation (r) is greater than 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the SBI bank has been successful in mobilizing its outside assets for earning profit.

In case of SCBNL it is found that the coefficient of correlation between outside assets and net profit value is 0.9939 which shows there is positive relationship between the two variables. By applying of Coefficient of determination, the value of $r^2$ is 0.9878 which indicates that 98.78% of the variation in the net profit due to outside assets.. Further, value of P.Er is 0.0037 and 6P.Er is 0.0221. It shows that the value of Coefficient correlation (r) is lower than 6 times probable error. It cannot be concluded about significant of relationship between the two variables.

In case of EBL it is found that the coefficient of correlation between outside assets and net profit value is 0.9857 which shows there is positive relationship between the two variables. By applying of Coefficient of determination, the value of $r^2$ is 0.9717 which indicates that 97.17% of the variation in the net profit due to outside assets. Further, value of P.Er is 0.0085 and 6P.Er is 0.0512. It shows that the value of Coefficient correlation (r) is greater than 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the EBL has significant relationship between the outside assets and net profit

From the above analysis, it can be concluded that only SCBNL and EBL are successful in mobilizing their fund and earning profit. The value of r is positive in all the three banks but in SBI bank the value of r is lesser than the probable error so the SBI is not earning fully from the outside assets. Hence, the SCBNL has successful in earning high net profit from the outside assets. Similarly EBI is satisfactorily ok than SBI bank in mobilizing of outside assets in a profitable manner.

**SBI Banks views in Respect to the Investment Policy Directives and its Investment Details**

Nepal SBI bank Ltd has been doing very good in current scenario. It has opened its $59^{th}$ branch in Nepal. SBI main functions are anywhere branch banking services, ATMs, Remittance services, Housing loans, Mortgage loans, credit facilities for corporate, medium and small entrepreneurs.

Considering on the directives related to the investment policy SBI agrees on the current provision of minimum cash reserve out of total deposits. Bank says that current provision about the loan and advances and loan loss provision is very effective. Also it has been easily following the provision relating to the capital adequacy norm and the investing in shares and securities under the criteria of NRB. We also found from the secondary data that SBI bank has followed the provision of investment in the priority sector, deprived sector and productive sector as per the NRB directives. Although the bank has followed as per the NRB directives but the bank has not touched most of the rural areas. The investment of the bank is on restricted to the urban areas only and also the bank itself is not satisfied with the development in the rural areas. SBI bank is in average profit and it has not been able to pay dividend each year regularly.

SBI does not feel that the current investment directives of the NRB need some changes or revision. They do not think any of the directive related to the investment policy should be changed or revised. The bank is not facing any difficulties or problem through NRB directives. They are in Average Profit however; dividend each year is not paid regularly. Bank responds that it has not paid any penalties yet. They have not any complaints regarding the directives and also they from their side feel no any correction or revision of the directives is needed. Further they feel that it is very difficult to carry the investment function in the rural areas.

**EBL views in Respect to the Investment Policy Directives and its Investment Details**

Everest Bank today is running on profit, and performing with various schemes for its customers. Everest bank has been performing investment in education sectors, housing and business loans, in establishing big and small industries, in construction, tourism and agriculture sectors.

Considering on the directives related to the investment policy EBL says that the current provision of minimum cash reserve out of total deposits is more than required. Bank says that current provision about the loan and advances and loan loss provision is very effective. Also it has been easily following the provision relating to the capital adequacy norm and the investing in shares and securities under the criteria of NRB. Like the SBI bank the EBL has followed as per the NRB directives but the bank has not touched most of the rural areas. EBL bank is in high profit and it has not paid dividend each year regularly including bonus share.

EBL does feel that the current investment directives of the NRB need some changes or revision. The provision in which the bank says that some changes or revision is needed is provision on cash reserve requirement and directives regarding capital adequacy. They give their view that in cash reserve requirement provision, there should be given interest at NRB balance. The bank is facing difficulties or problem through NRB directives in the current scenario. Thus they say if the recommended changes or revision is done then they might be free from some difficulties they are in high Profit however. The EBL has not been charged with any penalties yet. However, EBL also feel that investing in the rural areas is very difficult and not only the provision related to the cash reserve requirement and the provision related to the capital adequacy, if possible NRB needs to change drastically all the provision. Further they say if the current provision is revised changed then in few years they believe that the current economic situation will be increased.

**SCBNL views in Respect to the Investment Policy Directives and its Investment Details**

Considering on the directives related to the investment policy SCBNL agrees with the NRB provision of minimum cash reserve out of total deposits. Bank says that current provision about the loan and advances and loan loss provision is very effective. Also it has been easily following the provision relating to the capital adequacy norm and the investing in shares and securities under the criteria of NRB.

SCBNL feels that the current investment directive of the NRB does not need any changes or revision. They further say that the NRB thinks very liberally while making directives. Thus SCBNL has no complaints regarding the provision related to the investment. They are satisfied with what NRB has provided. They do not think any of the directive related to the investment policy should be changed or revised. The bank is not facing any difficulties or problem through NRB directives.

### 4.3Major Findings of the Study

The main findings of the study are derived on the analysis of financial and statistical data of SBI, SCBNL and EBL. All the findings are based on the secondary data. The findings are illustrated as follows.

#### 4.3.1 Liquidity Ratio

Liquidity position of SBI, SCBNL and EBL reveals that

- The mean current ratio of EBL is higher at all. It means EBL has maintained the higher liquidity in compare to other two banks. SCBNL is weak in maintaining the liquidity position than the two other banks. The current ratio of EBL is less consistent than SBI and SCBNL.
- The cash and bank balance to total deposit ratio of EBL bank is higher than the two other banks. Thus in this regard the EBL bank has good liquidity position. The cash and bank balance to total deposits ratio of SBI is high consistent than the EBL and less consistent than SCBNL.
- The mean cash and bank balance to current assets ratio of EBL is higher than the other two banks. Whereas, SCBNL has the lowest mean which means it has the weak liquidity position. Similarly SBI has moderately good liquidity position. The cash and bank balance to current assets ratio of SCBNL is less consistent than the SBI and more consistent that EBL.
- The mean of investment on government securities to current assets ratio of SCBNL is the highest and EBL bank is the lowest. Thus the liquidity position of SCBNL is very good than the other two banks whereas the EBL has adopted very weak in regard of this ratio for the liquidity management. Whereas, SBI has good liquidity position among the three banks. The investment on government

securities to current assets ratio of SCBNL is less consistent that the two banks. Thus SCBNL has good liquidity position.

- The mean ratio of loan and advances to current ratio of EBL is higher than that of two banks. SCBNL has the lowest ratio than the two banks. The loan and advances to current ratio of EBL is less consistent than the other two banks.

The results show that EBL has adopted slightly good liquidity position than the two banks. SCBNL is not so good in liquidity position than the two banks whereas the liquidity position of SBI is satisfactorily good in regard of all the ratios as it has neither higher nor lower liquidity ratios.

**4.3.2 Asset Management Ratio**

The assets management ratio of SBI, SCBNL and EBL reveals that

- There is not much variation in the mean ratio of loan and advances to total deposits ratio of SBI and EBL. SCBNL has less mean ratio in this regard. The loan and advances to total deposits ratio of EBL is less consistent than the two other banks.
- The mean ratio of total investment to total deposit of SCBNL is higher and EBL bank is lower that the three banks. Whereas SBI is moderately in ok position in the ratio of the total investment to total deposit. The total investment to total deposits ratio of SCBNL is less consistent that the two banks.
- EBL has the higher mean ratio of loan and advances to total working fund. Whereas, SBI mean is also not so much less than EBL. However, SCBNL has very less in its mean ratio. The loan and advances to total working fund ratio of EBL is less consistent that the two banks.
- The mean ratio of investment on government securities to total working fund of SCBNL is higher than the two banks. Whereas SBI has the lowest mean ratio than the other two banks. SCBNL has good position in its assets management ratio. The investment on government securities to total working fund ratio of SCBNL is less consistent than the two banks.
- EBL has highest mean ratio of investment on shares and debentures to total working fund, but SBI has the lowest in its mean ratio. SCBNL has moderate in

its mean ratio. The investment on shares and debentures to total working fund ratio of EBL is more consistent to SCBNL and less consistent to SBI.

From the above findings, it can be concluded that SBI does not seem to follow any definite policy regarding management of its assets. EBL has not maintained any stability in its position. Although, SCBNL is not in a higher mean ratios but it has maintained a stability position in the assets management policy than the two other banks. However SCBNL and EBL should take initiative steps in managing its assets. If fails in managing its assets process only then may remain far behind in this competitive banking business in futures.

**4.3.3 Profitability Ratio**

The profitability ratios of SBI, SCBNL and EBL reveal that

- The mean ratio of return on total working fund of SCBNL is greater than EBL which is also greater than SBI. The return on total working fund ratio of SCBNL is less consistent than two banks.
- The mean ratio of total interest earned to total outside assets of EBL is higher than the two banks whereas, the mean ratio of SCBNL in this regard is very low. The total interest earned to total outside assets ratio of SCBNL is more consistent to SBI and EBL.
- The mean ratio of total interest earned to total working fund of EBL is greater than the two banks. The lowest mean ratio is adopted by SCBNL. The total interest earned to total working fund ratio of EBL is less consistent that the two banks.
- The mean ratio of total interest paid to total working fund of SBI is the highest and SCBNL is the lowest. The total interest paid to total working fund ratio of SBI is less consistent that the two banks.

From the above analysis, we find that SCBNL has maintained satisfactory level of profitability position than the two banks. And the SBI and EBL have not maintained stable profitability position. Although in some ratios they have got high mean ratios. Thus all the three banks have to invest their fund on profitable sectors for maintaining their higher profit margin in future.

#### 4.3.4 Risk Ratio

The risk ratios of SBI, SCBNL and EBL reveal that

- The mean credit risk ratio of SBI and EBL are much higher than the SCBNL. However, the credit risk ratio of SCBNL is more consistent than that of other two banks.
- The mean ratio of EBL bank is higher than the two banks and SCBNL has the lower mean ratio. It implies that the EBL has maintained higher liquidity risk ratio and has kept more idle cash, keeping all more deposits as idle cash.

Thus from the above analysis, it is seen that due to the highest credit risk and liquidity risk of EBL bank, thus these banks must be careful about the risk.

#### 4.3.5Coefficient of Correlation Analysis

Coefficient of correlation analysis between different variables of SBI, SCBNL and EBL reveals that

- It is found that there is significant relationship between deposits and investment in case of SBI and significant relationship between the variables of SCBNL and EBL. SBI has the positive and the highest value of Coefficient of correlation than the two banks, thus it indicates that the bank has greater position in mobilizing deposits as total investment in compare to other banks. But EBL has the lower Coefficient of correlation between the deposits and investment thus EBL is in a very poor position in mobilizing deposits on investment.
- It is found that there is significant relationship between deposits and loans and advances in case of SBI, SCBNL and EBL. However, SCBNL has the lower Coefficient of correlation between deposits and loans and advances in compare to other banks thus indicates that SCBNL bank is in poor position on mobilizing its deposits as loans and advances in compare to SBI and EBL, whereas EBL is in higher position thus fully utilizing deposits on loans and advances.
- The value of Coefficient of correlation between outside assets and net profit is significant in case of SBI, SCBNL and EBL. SBI has the lowest value of Coefficient of correlation between outside assets and net profit but SCBNL has the highest. Thus SCBNL is successful in mobilizing of funds to earn profit. But

SBI and EBL is not in better position to mobilize the outside assets to earn income.

### 4.3.6 Growth Ratios

From the analysis of growth ratio of SBI, SCBNL and EBL, it reveals that:

- The growth ratio of deposits of SBI is greater and SCBNL has the lowest.
- EBL's growth ratio of loans and advances is more than SBI and SCBNL. SCBNL's growth ratio of loans and advances is in lower state.
- The growth rate on total investment of SBI is highest and SCBNL is the lowest.
- The growth ratio of net profit of EBL is the highest and the SCBNL is the lowest.

From the above analysis, we can conclude that SBL has success to maintain the growth ratio in deposits. EBL's loans and advances growth ratio is in highest state. EBL is successful to maintain its growth rate in loans and advances. Similarly, SBI is also successful in maintaining its growth rate in investment and EBL is successful to maintain its net profit. However, SCBNL has maintained its all growth ratios lower than the other two banks. Thus, SCBNL needs to maintain its growth ratio.

# CHAPTER – V

# SUMMARY CONCLUSION AND RECOMMENDATION

This chapter highlights some selected actionable conclusions and recommendations on the basis of the findings, which are derived from the analysis of SBI, SCBNL and EBL. The analysis is performed with the help of financial tools and statistical tools, and to derive a conclusion from the tools, the secondary data are taken into consideration. The analysis is associated with comparison and interpretation.

## 5.1 Summary

Industrial development is very important for economic development of any country. And there must be investment made on productive activities for industrial development. Investment is one of the financial activities, which involve the decision of capital to establish commercial or industrial ventures. It involves uses of long-term assets that would yield benefit in the future.

Banks, which serve as a depositors of the cash resources of the public and as purveyors of finance for trade and industry .It play a vital role in the economic and financial life of a country. Unlike other joint stock companies, banks generally obtain a very large portion of their working capital from the depositors rather than from the shareholders. Therefore it should wisely and carefully use its collected fund. Investment policy should be carefully analyzed. Joint ventures bank have to pay due consideration while formulating Investment Policy regarding loan and investment. Investment policy should ensure minimum risk and maximum profit from lending. Several principals such as length of time, their purpose, profitability and safety etc guide the loan provided by the bank. Joint ventures banks including other commercial banks also have to consider government and NRB's instruction and national and banks own interest as well.

Within the past 6-7 years the joint ventures banks have developed very much in the investment sectors. In the past banks functions were mainly concentrated to the deposits of the funds only but nowadays the banks functions are not only limited to the deposits and savings rather it has concentrated more of its function to the investment purpose. Including the Central Banks investment directives all the banks have their own written investment, which they follow strictly. Thus from the review of the study the definition of the investment has been more widen. Banks are being more cautious in the process of the investment and they have considered the investment function as the major banks activities that help to improve the country's economic growth.

The study also review that banks are not hesitating to take risk in the investment process if there is the high degree of return. We all know that higher risk higher return but banks in the past did not take high risk. However, the high-risk, high return policy has been maintained by the sample banks of the study. Now the most highly profitable joint venture bank is EBL although the SBI and SCBNL are also giving various services to its customers and also a wide range of investment opportunities. All the samples banks are giving investment facilities like housing loans, business loans, education loans, home loans, old age loans etc. Similarly they are coming with new ideas in the investment function, which could develop the economic position of the country in near future.

The joint ventures banks are widening its services and also opening its branches but due to the weak infrastructure of the country and more illiteracy rate they have not been able to touch all the Nepalese. Most part of the country does not get the banking facilities. Thus they should take the major steps in enhancing its services to the other rural areas.

The joint ventures banks accept the policy provided by the Nepal Rastra bank. To follow the rules of Nepal Rastra bank is not difficult but some amendments need to be done from the side of the Central Bank of the country. All the banks feel that for the economic development of the country the rural part of the country should be developed. This study found from the secondary data that the bank does want to extend its services to the rural sector. From the secondary data each bank has said that they have not been able to cover the rural sector, as they have been more concentrated in the urban areas only. Thus this would restrict the investment on the urban areas only.

## 5.2 Conclusion

From the study of the joint ventures banks we find that they are running on profit. Economic liberalization policy of the government has encouraged the establishment and growth of commercial bank in the country within the short span of time. In this situation when the existing financial institutions, especially government's commercial banks were unable to supply credit timely and carry capital market activities, private joint- ventures commercial banks have contributed a lot.

The overall performance of joint venture commercial bank is satisfactory and Nepal Rastra Bank has to play more active role to enhance the operation. Bank plays a crucial role in sustainable development of least developed countries. Because of the bottlenecks inherent in the economies of least developed countries, either they are unemployed or underemployed or only seasonally employed. It can absorb the population in the gainful employment activities. Thus they can play an important role in poverty alleviation in the country. The major sources for financial resources to industries in the least developed countries are the Commercial banks and Joint Ventures banks. They account almost 80 to 90% of total lending to enterprises. This study is concerned with the investment policy analysis of Joint Ventures banks in Nepal. The major findings of the study are as follows.

**Conclusion from the Secondary Data**

- The analysis of liquidity position of the sample joint ventures banks have satisfactory. EBL has higher liquidity position than the two banks in cash and bank balance to total deposit, cash and bank balance to current assets. EBL has maintained very successful of liquidity position. SBI has also maintained high liquidity position investing more current assets, loan and advances to current assets however, the overall liquidity position are satisfactory. SCBNL has higher liquidity by investing on govt. securities
- The efficiency of assets management of the three joint ventures banks (SBI, SCBNL and EBL) is at satisfactory level. EBL has efficiently maintained its assets management than the two banks. Similarly SCBNL has maintained higher position investing more to the government securities and other investment. SBI's overall performance on lending and investment activities is not so bad.

- The profitability position of SCBNL is higher than that of other two banks.
- The coefficient of correlation of deposits and investment of EBL is not better than the two banks. The coefficient of correlation between the deposits and loans and advances of EBL is in better position. The coefficient of correlation between the outside assets and net profit of SBI is not better than other two banks. SCBNL and EBL are in better position.
- The growth position of EBL is better than other two banks in the aspects of loan and advances and net profit. The growth position of SBI is better than other two banks in the aspects of deposit and in its investment.

Strengthening and institutionalization of the commercial banks is 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 imperfections, allowing flexibility in lending, one window service from NRB, need of a strong supervision and monitoring from NRB, and diversity scope of activities for commercial banks, professional culture within commercial banks, are necessary to ensure better future performance of JV commercial banks.

The joint ventures banks have to prove that they can really contribute to the national economy, and are efficient and viable agencies for mobilization of saving and its channelization into productive sectors, and are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive with other agencies and are trust worthy.

### 5.3 Recommendation

On the basis of the above analysis, findings and summary, following recommendation can be advanced to overcome the weakness, inefficiency and to improve present fund mobilization and investment of SBI, SCBNL and EBL.

- There are many factors that affect the liquidity position of a bank. The factors are internal as well as external. The affecting factors may be interest rates, supply and demand, position of loan and advances and savings, investment situation, central banks directive, lending policies, efficient management, proper planning and fund flow situation. As SBI and SCBNL has considerably maintained lower ratios of cash and bank balance to total deposits and current assets than EBL bank so both SBI and SCBNL are recommended to increase cash and bank balance to meet current obligation and loan on demand.

- Current ratio is not sufficient to achieve the standard rate of 2:1 so all the banks are recommended to maintain CR for the proper management of their liquidity position.
- Ratios of investment to total deposits and to government securities are too high in SCBNL than other two banks. It shows that there is less liquidity since banks deal with others money. They should find ways to keep their assets liquid so that they could meet the withdrawal of customers on demand. Thus SCBNL is highly recommended not to ignore the safety aspects of the public money and have to considered liquidity of the deposits.
- To get success in competitive banking environment, depositor's money must be utilized fully on loans and advances. It is found from the analysis of data that EBL has a greater ratio which means it has utilize its large portion of its fund on loans and advances and has not considered on the investment on the other sectors like government securities. The other two banks SBI and SCBNL have not properly utilized their existing fund as loan and advances. Thus, these banks are recommended to follow liberal lending policy.
- The banks should be very careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its all customers. Among the three banks, SCBNL is strongly recommended to utilize the risky assets and shareholders fund to gain highest profit margin. Also it should reduce its expense.
- EBL interest earned ratio is too high. However, most of the banks invests major parts of their deposits collection in loan and advances to increase profitability. The banks income should not be limited to interest earned from loan. Thus EBL is highly recommended to invest more on income generating areas like foreign exchange business, remittance and other commission based business, as this bank has high interest earned ratio.

- The government securities are those that have less risk and are issued by the government. They are considered to be free of risk of default. SCBNL are strongly recommended to invest on the government securities if they have idle funds.
- EBL is recommended to invest more on other company's shares and debentures to mobilize its fund for business and industries for industrial support.
- All the banks should consider the portfolio management. They are all recommended to examine their portfolio condition from time to time to maintain an equilibrium position. The banks should always make a continuous effort to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio. However, in this matter SBI, SCBNL and EBL are trying their best to have the different portfolio management.
- Always the banking sectors should be focused on customer oriented. It should strengthen its marketing functions to attract more and more customers. As people's money are the great assets to the bank. From time to time banks should formulate new strategies of serving customers in a more convenient and satisfactory way.
- As all the banks are in profitable state, thus they should use the profit more on the productive sectors.
- Central bank should not try to have too much control on the joint ventures banks and also joint venture banks should consider the central banks opinion.

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