A STUDY ON THE INVESTMENT PRACTICE OF STANDARD CHARTERED BANK NEPAL LIMITED

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DECLARATION

I hereby declare that the work reported in this thesis entitled "***A Study on the Investment Practice of Standard Chartered Bank Nepal*** Limited***",*** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfilment of the requirement for the Master in Business Studies (MBS) under the Supervision of Supervisors ***Mr.Achyut Raj Bhattarai*** and ***Mr.Shree Bhadra Neupane*** of Shankar Dev Campus.

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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I hereby declare that the work reported in this thesis entitled “A Study on the Investment Practice of Standard Chartered Bank Nepal Limited”, submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is an authentic research work done in the form of partial fulfillment of the requirement of Master of Business Studies (M.B.S.) under the guidance and supervision of Mr. Achyut Raj Bhattarai and Mr. Shree Bhadra Neupane, Shanker Dev Campus, T.U.

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ABBREVIATIONS

1.	Acc.	: According
2.	ATM	: Automatic Teller Machine
3.	B.S.	: Bikram Sambat
4.	CEO	: Chief Executive Officer
5.	e.g.	: For or as an example
6.	etc.	: And so on (abbr. of et cetera)
7.	FY	: Fiscal Year
8.	GATT	:General Agreement on Tariffs and Trade
9.	GDP	: Gross Domestic Product
10.	HMG/N	: His Majesty's Government Nepal
11.	i.e.	: That is
12.	IMF	: International Monetary Fund
13.	JVBs	: Joint Venture Banks
14.	L.C.	: Letter of Credit
15.	Ltd.	: Limited
16.	NPA	: Non Performing Assets
17.	NPL	: Non Performing Loans
18.	NRB	: Nepal Rastra Bank
19.	Ph.D.	: Doctor of Philosophy
20.	SCBNL	: Standard Chartered Bank Nepal Limited
21.	sq. km.	: Square kilometer
22.	viz.	: Namely (abbr. of vide licet)
23.	vol.	: Volume

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Nepal, sandwiched between two boulders, China and India, is a landlocked country with an area of 1,47,181 sq.km. having no coastal borders situated in the South East Asian region. Out of the total population of 2,64,69,569 (2003 estimate) more than 80% are dependent on agriculture and the rest on profession, industry and commerce. Similarly, about 40% of the total national product is contributed from agricultural sector and the rest from other sectors. This shows the country's over dependency on agriculture. According to the National Population Census, 2001 A.D. the annual population growth rate is 2.25%. The projected population of the year 2011 would reach 28.6 million which is considered quite high. Only 20% of the people have the habit of savings. Thus, due to low saving there is lower investment. About 38% of people are living below poverty line and according to World Bank, with the help of Central Bureau of Statistics, has stated that the poverty has declined by 11% during the last eight years, which means that the people living below poverty line currently is 31%.

"Poverty has become a major challenge for the least developed countries especially like ours. It is a matter of pride and development for a nation to eliminate it. For this reason, the entire resources of the nation have been deployed in it. In 2054 B.S., at the very outset of Ninth Plan, the people living below poverty line were 42%. During the same period, 44% were from rural sector and 23% from urban sector. Further classifying the urban sector, except Kathmandu Valley, 34% poverty was found in other urban sectors. If the per capital income is less than Rs.4404 a year, then such people are considered as people living below poverty line. Later, in 2001 A.D., this amount was increased to Rs.6100. However, at the mid of the Ninth Plan, poverty has been decreased to 38% and in 2004 A.D. to 30%." (*Encarta Reference Library; 2004:41*).

"Similarly, the country faced many vicissitudes in foreign trade. The growth rates in agriculture and non-agriculture sectors have been estimated at 3.7% and
3.3% respectively. There has been a growth of 5.6% in exports in 2003/04 A.D.

Compared to the previous year and the amount being Rs.52,724 million. The credit for this is an improvement in exports to India, which increased by 18.2% in contrast to the decrease by 5.5% last year. Contrary to this, exports to third countries have gone down by 8.6%, which recorded a growth of 23.8% last year. On the other hand, the imports have increased by 11.9%, which totaled Rs.139,142 million. Imports growth trend from India reduced to 15.1% from 25.3% in 2003/04 A.D. While, imports from other countries has increased by 7.6% compared to 5.2% in 2003/04 A.D. As a result, trade deficit increased by 16.1% to reach Rs.86,419 million in 2003/04 A.D. The average inflation during 2003/04 A.D. was estimated at 4% as compared to 4.8% during the previous year. The IMF has forecasted the world economic growth rate of 4.6% and 4.4% for 2004 A.D. and 2005 A.D. respectively and growth rate of South Asian countries are expected to be approximately 6.5% in 2004 A.D. compared to the actual growth rate of 7% in 2003 A.D."(*Ministry of Finance; 2006:38*)

Banking sector plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deals in the process of channelizing the available resources in the needed sectors. It is the intermediary between the deficit and the surplus of financial resources. Financial system contains two components viz: depository financial institutions and non-depository financial institutions. Commercial Banks and Finance Companies (in Nepalese context) are the example of depository financial institutions whereas Employee Provident Fund, Development Banks, Insurance Companies are the example of non-depository financial institutions. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks provide such funds to finance the industrial activities in the form of loans and advances.

Financial institutions play a major role in the proper functioning of an economy. These institutions act as an intermediary between the individuals who lend and those who borrow. These institutions accept deposits and provide loans and advances to those who are in need. They make the flow of investment easier. Therefore, we cannot deny the role a bank plays in developing an economy. It pools the funds scattered in the economy and mobilizes them to the productive sectors. Their main objective is collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. Thus, the bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society as a whole.

Development of a nation depends upon various sectors viz: trade, industry, agriculture etc. Hence, to develop these sectors a continuous and adequate supply of resources is required. In developing countries, especially like ours, there is always a dearth of capital. The government cannot contribute to the economic development all alone. Nevertheless, the private sector also cannot reinforce due to low per capita income and higher propensity to consume of the people. Hence, due to low income, saving is low which on the other hand results in low capital formation. Thus, investment is one of the vital aspects in the improvement of the economic condition of a country.

In general, investment means to pay out money to get more. It is the sacrifice of current dollar for future dollar. It is geared by two factors: time and risk. The sacrifice takes place in the present, is certain while the reward comes later, and is generally uncertain. Investment policy ensures efficient allocation of funds to achieve the overall objectives. A distinction is often made between investments and saving. Saving is defined as foregone consumption; investment to restrict to 'real' investment of the sort that increases national output in future. Thus, investment is only possible where there are adequate savings. They are interrelated and go hand in hand.

*"*A commercial bank means banks which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.*" (The Commercial Bank Act; 2063:2)*

"Joint venture means joining of forces between two or more enterprises for the purpose of carrying out a specific operation." (*Johnson and white; 1997:49*)

"A business contract of management effort between two person, companies or organization involving risk and benefit sharing" (*Ahuja; 1994:163*) is a joint venture.

A book on "Commercial Banks" comparative financial performance evaluation written by Mr. M.K.Shrestha has mentioned that there has been substantial growth in the JVBs in Nepal since 1990 A.D. The basic reason behind this is governments' deliberate policy of allowing foreign JVBs to operate in Nepal. Government's liberalized policy also encouraged the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, computerization and prompt customer services by setting them to the exposure of JVBs.

Joint Venture Banks are those financial institutions established to achieve mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between Nepalese investors: financial and non-financial institutions along with private investors and their parent banks each providing 50% of total investment. The primary motive of JVBs is to earn profit by investing and granting loans and advances.

All the Nepalese JVBs are established and operated under the rules, regulations and guidance of NRB. NRB has issued certain directives to these banks e.g. regarding the mandatory credit collection to the priority sectors, NRB has directed to the government owned banks to invest 3% and the JVBs to invest 0.5% of their total outstanding credit to the priority stricken community.

Today, there is a keen competition in business world and banking is not an exception. The ever-increasing political problems and terrorism in the country has affected the investment opportunities of banks; in fact, they are compelled to search for new investment avenue. However, investment is a critical job, if done correctly increases the affluence of the country and contrary to this will lead the country to the abyss of poverty. Therefore, banks must follow a sound investment policy for a profitable, safe and purposeful investment. Investment policy should ensure minimum risks and maximum return. A good investment policy ensures a right balance of investments on all sectors with efficient and effective utilization. It attracts both borrowers and lenders who help to increase the quality and quantity of deposits, loans and advances. The reason for the downfall of most of the banks in the world is due to the shrinkage in the value of loans and advances. Since, loan is a risky asset investment should be done wisely. In present scenario, the interest rates on deposits provided is very low and interest charged on loans and advances is very high and apart from this, there are no profitable sectors for investments. Due to this very fact, Nepalese JVBs are required to explore new horizons of investments in order to sustain in the long run.

The profit of a bank largely depends upon the lending practices and policies and investments opportunities in different sectors. The greater the credit created by the bank the higher will be its profitability. Bank receives funds from various sources like share capital, reserve funds, retained earnings, bank borrowing, deposits and other liabilities. These funds cannot be kept idle, they have to be invested in assets like cash and bank balance, money at call or short notice, investments, bills purchased and discount, loans and advances, fixed assets and deferred expenses. It is because the bank has to repay some liabilities on demand, it also has to give interest on deposits made by its customers and even the shareholders seek maximum return. Therefore, the funds received by the bank should be invested in such a way that they will be readily available to repay and distribute the returns. Hence, the bank should have enough liquidity and profitability with all the safety measures. In gist, a right balance should be kept between safety liquidation and profitability. Investment policy provides banks with several inputs through which they can handle their investment operations efficiently assuring maximum return with minimum exposure to risks. Thus, a sound lending and investment policy is necessary in order to uplift the economic condition of a country. Furthermore, considering the importance of lending to the individuals, business community and the society as a whole, it is imperative that the bank meticulously plan its credit operations. A sound credit policy has the following objectives

To have adequate performing assets
To give guidance to lending officials
To establish a standard for control
To contribute to economic development
To drive employees towards meeting their duties and responsibilities through proper trainings and education

1.2 Focus of the Study

In Nepal, banking sector seems to be growing more rapidly than industry and commerce itself because more and more banks are being established and apparently they all are providing good return to the investors. Strength and sound management of their resources directly affect the profit or profitability. A comparative analysis of investment policies of NABIL, SCBNL and HBL is crucial as it determines the strength and weakness of these three joint venture commercial banks on the aspect of investment policies.

The study focuses on the problems of resources mobilization and proper utilization of such resources by the joint venture commercial banks of Nepal. viz. NABIL, SCBNL and HBL. This study consists, mainly, the study of investment policies and rifled on the position of Joint Venture Commercial Bank's deposits and allocation of it on different sectors of the economy.

The focus of this study is also to provide the information to the management, shareholders, investors and customers, general public, competitors as well as those concern parties who want to know the operating efficiency and financial position of a bank.

1.3 STATEMENT OF PROBLEM

In the dawn of new millennium, there are more than 20 commercial banks. All these banks have created a cutthroat competition in the financial sector. Fluctuating and low interest rates on deposits, poor deposit mobilization etc. has affected on the return of funds, total assets, total deposits and shareholders' wealth position.

Since the liberalization policy of the government, various banks and financial institutions have been established with a view to reinforce the economic growth of the country. They have played an indispensable role by accepting deposits and granting loans. Investment of the collected funds is the most important factor for both shareholders and the bank as they are the source of earning. Credit extended by these banks is directly related to the national interest. Therefore, the banks should have a sound investment policy.

Diana McNaughton said, “Investment policy should incorporate several elements such as regulatory environment, availability of the funds, selection of risks, loan portfolio balance and term structure of liabilities.”

Joint Venture Banks (JVBs) are of utmost importance as they have contributed significantly to the overall economic development of the country. Yet, after so long since their establishment and successful operations for almost two decades, they are not free from problems and hindrances in their avenue. Since, we are concerned with the sample (SCBNL) we will be discussing about it. This bank has been operating pretty well from its inception. It has been awarded prestigious titles on account of its experience in the field of international banking, hi-tech computerized services, professional attitude, qualified and experienced work force, quality and reliable services that served as the key factor for its rapid progress. It has been able to control and capture a remarkable leadership of Nepalese banking sector in a relatively short period in terms of both market share and market price.

Commercial banks are more interested in providing loans on short-term basis against movable collaterals. They are reluctant to invest in huge and long term projects due to safety and security of their loans. Thus, they are following conservative loan policy based on strong security. Similarly, these banks do not have a well-organized investment policy. They rely much on the instructions and guidelines of Nepal Rastrya Bank. Even if they have formulated some guidelines, they fail to implement it due to poor supervision and lack of professionalism.

Project appraisal method followed by commercial banks is not scientific and appropriate. Granting loan against insufficient deposits, overvaluation of goods pledged, land and building mortgaged, risk-averting decision regarding loan recovery and negligence in recovery of overdue loans are some of the drawbacks of unsound investment policy. Similarly, loan supervision and follow-up mechanism is lacking in many commercial banks. Due to this, the portion of non-performing assets on total loans and advances has been increasing rapidly.

Nepal being an agricultural country needs more investment in this sector. Nevertheless, commercial banks are rather concerned in industrial and foreign projects. As a result, the credit extended to this sector is unsatisfactory. Besides, they are not even fulfilling the NRBs regulation of 12% investment of their total loans to the priority sectors like agriculture, cottage and small industries and services.

Similarly, the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of investable funds to reduce risks. Hence, the principle "do not put all the eggs in one basket" really does not apply in context of Nepalese commercial banks. As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that has now come to the brink of extinction.

Thus, the study mainly focuses on analyzing the different aspects of the bank and finding the answers to questions such as

Is the bank able to utilize the available funds effectively?
How aggressively is the bank lending?
What is the proportion of risk free and risky investment on total investment made by the bank?
What is the proportion of Non-performing assets on total loans and advances of the bank?
What is the relationship of total deposit on total investment and total investment on total net profit of the bank?
What steps should be taken to improve the investment policy of the bank?
Is the bank maintaining sufficient liquidity position?

1.4 OBJECTIVES OF THE STUDY

The main objective of this study is to evaluate the investment policy of SCBNL and to recommend corrective measures, if any, in order to improve its performance. Besides, there may be other objectives too

- To analyze deposit utilization and its relationship with total investment and net profit of the bank.
- To determine the growth of bank in terms of deposits, loans and advances, investment and profitability of the bank.
- To evaluate the liquidity, assets management, profitability position, activity and risks of the bank.
- To suggest measures to improve the investment policy of the bank.

1.5 SIGNIFICANCE OF THE STUDY

Since, the study is concerned with SCBNL; it will be helpful to have an in-depth knowledge about the investment policy of the bank for a period of 5 years. This study will also benefit various persons and parties such as shareholders, public, management committee, stockbrokers, government, policy makers and many more that have their stake in this particular bank and in the overall banking sector. Apart from this, it is also useful for other commercial banks and central bank for formulation of appropriate investment policies and strategies. This study will evaluate the investment policy and help to find the drawbacks and provide corrective measures for the proper implementation of it.

1.6 LIMITATIONS OF THE STUDY

As every coin has two sides, there is no doubt that even this thesis has some limitations of its own. Here are some of them to begin with

As mentioned earlier, this thesis is based on secondary data (published annual reports of commercial banks), journals, newspapers, magazines etc and unpublished thesis.

The study covers only 5 years data, beginning from 2001 A.D. to 2006 A.D.

It only examines the investment policy of the bank and ignores other aspects for comparison.

Among more than 20 commercial banks, only one is studied due to time and resources constraints. Thus, we cannot have a true picture of the overall conditions of commercial banks in Nepalese banking sector and the average performances of this bank is not the average of all the commercial banks in Nepal. Thus, the findings of the study cannot be generalized.

- To some extent, the data published on the websites may vary sometimes, with that of the annual reports of commercial banks. So, the data from the websites are considered as authentic one.

- The study is meant for academic purpose i.e. partial fulfillment of the requirement of the Masters of Business Studies (M.B.S.).
- It has taken into account only certain factors affecting the investment decision.

1.7 Profile of Standard Chartered Bank Nepal Limited

Standard Chartered Bank is a British Bank with its headquarters in London. It has more than 700 offices in 55 countries. It is an international bank aspired to diversify its market all over the Asia, Africa and the Middle East. It has been representing in Asia for over 150 years. After the purchase of the ANZ Grindlays, SCB became the largest foreign bank in South Asia. The first Standard Chartered branch office was established in 1854 A.D.

In Nepal Standard Chartered Bank Nepal Ltd. (earlier known as Nepal Grindlays Bank Ltd.) came into existence in 1987A.D. as a joint venture between ANZ Grindlays and Nepal Bank Ltd. that started with Rs. 30 million paid up capital. The general public had 15%, Nepal Bank Ltd. had 35% and the Grindlays Bank London had 50% of share holdings at the time of its establishment. However, after the acquisition of the ANZ operation in the region by the Standard Chartered, it has become a subsidiary of SC Grindlays, which holds 50% of the shares and the rest i.e. 16.66% by general public and 33.34% by Nepal Bank Ltd.

Share Holding Pattern:

Nepal Bank Ltd., the promoter partner has divested its entire (33.34%) shares held by it. The bank sold 8.34% of shares to the general public as per the Memorandum and Article of Association of the bank and 25% shares to SCB, UK with the approval of NRB. The 186th Board Meeting of SCBNL held on August 19, 2004 unanimously approved the transfer of NBL's shares in the name of SCB, UK. Hence, SCB, UK currently holds 75% shares and the Nepalese public 25% shares in the SCBNL. Thus, the 18 years old partnership of NBL with SCBNL ended with an outstanding support and guidance in the development of the bank.

Board of Directors:

Mr. Jaspal Sing Bindra (Chairman)
Standard Chartered Bank
Chief Executive Officer, India Region

2. Mr. Sujit Mundul (Director)
Standard Chartered Bank
General Manager
Standard Chartered Bank Nepal Ltd.

3. Mr. Shantanu Mitra (Director)
Standard Chartered Bank

4. Mr. Sanjeev Agrawal (Director)
Standard Chartered Bank

5. Mr. Niranjan K. Tibrewala (Director)
   Nepalese Public Shareholders

Representation:

According to the Annual Report of SCBNL 2006 A.D., there are 15 points of representation, 11 branches and 4 extension counters. Similarly, the bank is providing ATM services from 15 online centers both in Kathmandu .In line with strategy to expand and fulfill the customer needs, 2 branches in nepalganj and New road, Pokhara were opened. The bank also added 3 new ATMs at United World Trade Complex(Tirpureshwore),Durbar Square (patan) and Boudha (Kathmandu).

Human Resources:

As 2006 A.D., the bank has 350 full time equivalent staffs as compared to 317 the preceding year. Similarly, the bank provides equal opportunity to both genders and the current male to female ratio are 51:49.

Consumer Banking:

In the FY 2004/05, A.D the bank launched two products targeting the corporate customers banking needs: Chequewriter and Quick Payment Services.

Introduction of Personal Loans to meet various personal financial needs i.e. for social obligations, for pursuing higher education, for purchase of consumer durables etc. of salaried individuals and professionals.

An agreement with CG Finco to offer Western Union Money Transfer Services from their franchise.

Launching of Electronic Fund Transfer Point of Sale facility that eliminates the burden of carrying cash and can make payments of purchases using ATM cards directly at 50 merchant outlets in Kathmandu.

Home Banking services provided to the customers at their doorsteps.

Providing ATM services from 15 on line centers both in Kathmandu and in Pokhara.

After the success of the Home Loan Product, which was introduced a few years back based on the need of the customers and the market the bank has launched a sub product called Home Advantage. The homeowners can get various financial supports by borrowing from the bank against the security of their homes under this scheme.

The bank introduced a scheme called Auto Loan. Under this, it has financed around 500 taxis in order to complement the efforts of the Government to replace 20 years old taxis and two stroke tempos.

Awards and Achievements:

The bank in the way of completion of its 20 yrs in Nepal in the year 2007 A.D.The bank has won the "Best Presented Accounts for the Financial Year 2002/2003. A.D" for the second consecutive year, awarded by the Institute of Chartered Accountants of Nepal (ICAN) with the objective of encouraging Nepalese corporate to prepare financial statements giving maximum information to the users. The award was presented by the Prime Minister Mr. Sher Bahadur Deuba at the inauguration of a seminar organized by South Asian Federation of Accountants. Similarly, the bank was also awarded "The Best Company-Financial Institutions" in December 2003. A.D, by a leading business magazine "The Boss" and the CEO Mr. Sujit Mundul was awarded one of the top 5 CEOs. Annually the Standard Chartered Group conducts The Gallup "Q12 Survey" to measure staff's engagement at work. In October 2003 A.D, the bank was rated second highest within the group in Nepal with a score of 4.43.

1.8 ORGANIZATION OF THE STUDY

The entire study is divided into 5 chapters. Brief information of what each chapter contains is given below.

Chapter 1. It is an introductory chapter, which includes general background of bank. It also discusses about focus and significance of study, statement of problem, objective and limitation of the study and research methodology.

Chapter 2. This chapter deals with the review of literature. It includes reexamination or appraisal of the existing works in relevant areas and includes the concept of commercial banks, its roles, and a review of books, articles, research papers, previous thesis and Ph.D. dissertation.

Chapter 3. It is concerned with research methodology. It includes research design, sources of data, population and sample and method of analysis.

Chapter 4. This is the heart of the chapter as it is concerned with presentation and analysis of relevant data and information. In order to find out the true picture of the investment policy of SCBNL various financial and statistical tools and techniques are used. Thus, this chapter is concerned with the findings of the bank.

Chapter 5. This chapter is concerned with the interpretation of the results and findings of Chapter 4. It summarizes the overall picture of the study, draws conclusions, and offers suggestions and recommendations for improvement in the future.

CHAPTER 2

REVIEW OF LITERATURE

The word literature refers to writings on specific subject or printed information. It is an analytical expression on the concerned topic. Review of Literature refers to the analyzing, assessing, reevaluating and reexamining the previously written works. It is a stocktaking of available literature in the field of research. Thus, in the preparation of this thesis various books, articles, thesis etc. has been consulted and reviewed which are discussed below. This chapter is further divided into conceptual framework and review of related studies.

2.1 CONCEPTUAL FRAMEWORK

2.1.1 Meaning of Bank

Banks are those institutions whose primary chore is to deal in money and substitute for money. They deal with cash, credit and credit instruments. There should be proper circulation of credit because it is the essence of the existence of the bank. Unsteady and uneven flow of credit with ad-hoc decisions harms the economy as well as the bank. As a result, banks should properly utilize its funds in various investment avenues with a view to sustain and earn profit.

"The business of banking is collection of funds from the community and extension of credit to people for useful purposes. Banks have played a pivotal role in making money from lenders to borrowers. Banking is a profit seeking business, not a community to carry profit seeker, expected to pay dividend and otherwise, add to the wealth of shareholders."(*Edimiste; 1980:69*).

"Banking institutions are inevitable for the resource mobilization and all-round development of the country. It is a resource for economic development; it maintains economic confidence of various segments and extends credit to people." (*Grywinshki; 1993:48*)

“A commercial bank is a business organization that receives and holds deposits of funds from others, makes loans and extends credits and transfers funds by written order of deposits.”

“American Institute of Banking has defined commercial banks as a corporation which accepts demand deposits subject to repeated or short term loans to business enterprises, regardless of the scope of its other services.”(*American Institute of Banking; 1972:461)*

Commercial banks are the vital aspects in accelerating the pace of the economic development of a country. “They are organized on a joint stock company system, primarily for the purpose of earning profit. They can be either of the branches banking type, as we see in most of the countries, with a large network of branches, or of a unit banking type, as seen in the U.S.A., where a banks’ operations are confined to a single office or to a few branches within a strictly limited area.” (*Shekhar & Shekhar; 1998:215***)**

Banks are the principle source of credit to household: individual and family, business: all firms and local units of government. Furthermore, they are the source of financial information, planning and concealing. The income and profit of a bank largely depends upon its lending policies and procedures. In the investment policies and procedures, it is always kept in mind that “greater the credit created by the bank, higher will be the profitability.” A sound lending and investment policy is not only the prerequisite for banks’ profitability but also crucially significant for the promotion of commercial savings of a developing country like ours. Sound policies helps commercial banks maximize both the quality and quantity of investments and thereby achieve their objective of profit maximization and social welfare. Commercial banks should be careful while performing the credit creation function. Investment policy should ensure minimum risk and maximum profit from lending.

"Commercial banks should consider the national interest followed by borrower's interest and the interest of the bank itself before investing to the borrowers." (*Clemens; 1963:1128*) to clarify this, bank's lending must be for such purposes of the borrowers that are keeping with the national policy and bank's overall investment policy. A bank's overall investment

Should be short term oriented
Should be well spread
Should be repayable on demand
Must be profitable
Should have adequate security

2.1.2 Function of Commercial Bank

Generally, commercial banks have the two most essential functions i.e. borrowing and lending of money. They borrow money on various kinds of deposits: current, savings and fixed. Under current deposits, the banker incurs the obligations of paying legal tender on demand, while on fixed deposits the banker incurs the obligation of paying legal tender after the expiry of a fixed period or to pay the customer an agreed rate of interest on it in return for the right to demand from him on agreed period of notice for withdrawal.

"The American Institute of Banking has laid down four major functions of commercial banks such as receiving and handling of deposits, handling payments of its clients, making loans and investments and creating money by extension of credit." (*American Institute of Banking; 1971:855*)

Thus, a commercial bank mobilizes the savings of the society through current or fixed deposit account. It then provides this money to those who are in need of it by granting overdrafts or fixed loans or by discounting bills of exchange or promissory notes. Hence, the primary function of a commercial bank is that of a broker and a dealer in money. Apart from this, it performs a profusion of functions, which is grouped under two distinct categories namely, the agency services and the general utility services.

A. Agency Services

Commercial banks provide a wide range of investment services. Customers can arrange for dividends to be sent to their bank and paid directly to their bank accounts. The banks' brokers will also purchase or sell stocks on behalf of their customers and provides opinions on securities or list of securities. Similarly, the bank will also send application for allotments of shares and obtain share certificates and other documents.

The bank also provides services like payments of rent, electricity, telephone charges, subscriptions, collection of cheques, bills, promissory notes etc. It infact acts as a correspondent or representative of its customers, business organization, financial companies and other banks. Most of these banks have an executor and trustee department with which various companies may have affiliation. Thus, they provide a complete range of trustee, executor or advisory services for a small charge.

B. General Utility Services

Under this, the banker does not act as an agent for his customers; rather they provide services like issue of credit instruments like L.C. and travelers' cheques, acceptance of bills of exchange, safe custody of valuables and documents, transactions of foreign exchange business. It also acts as a referee as to the respectability and financial standings of customers and provide specialized advisory services to its clients. Some banks even have budget accounts for credit worthy customers. The bank guarantees, for a specific charge, a certain type of annual bills (e.g. Fuel bills, rates etc.) promptly as they become due, whilst repayments are spread over a 12 monthly period from the customer's current account.

C. Overseas Trading Services

Due to growing trend of international trade, commercial banks have set up branches specializing in the finance of foreign trade in different countries. These banks provide a comprehensive network of services for foreign banking services through its subsidiary. They help in the settlement of debts between traders both at home and abroad for the goods they buy and sell. They also provide credit and enable the company to release the capital, which would otherwise be tied up in the goods exported.

D. Information and Other Services

In present scenario, information plays a crucial role in the upliftment of the economy. Banks, one of the major sources of information on overseas trade, assists by providing regular bulletin on trade and economic conditions, special reports on commodities and markets, price and interest level fluctuation, rate of poverty and economic growth etc. On request, banks obtain confidential opinions on financial aspects of the firm, companies or individuals for its clients. They also provide legal information for the formation of company, tax requirements, exchange control, insurance and help to establish contact with local banking organization.

For this reason, it is not worthwhile to state that the services rendered by modern commercial banks are of inestimable value. It is the very essence of advanced economic society. In the word of Walter Leaf, "The banker is the universal arbiter of the world's economy."

2.1.3 Investment

"Investments, in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value." (*Sharpe & Gordon; 1999 272*.)

"Investment policy fixes responsibilities for the investment disposition of the banks' assets in terms of allocating funds for investment and loan and establishing responsibility for day to day to management of those assets." *(Baxley; 1987:266*).

"Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit function effectively and minimize the risk inherent in any extension of credit." (*Crosse; 1963:175*)

It is said that a bank must strike a right 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 (in hand quickly releasable) to meet every claim and at the same time, enough income for the bank to pay its way and earn profits for its shareholders."(*Radhaswami & Vasudevan; 1979:759*)

"The term investing can cover a wide range of activities. It often refers to investing money in certificates of deposits, bonds, common stocks or mutual funds. More investors that are knowledgeable would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompasses very conservative positions and aggressive speculation."(*Charles; 1988:742*)

"A banker seeks optimum combination of earning, liquidity and safety while formulating investment policy." (*Chandler; 1973:523*)

"Investment is any vehicle into which funds can be placed with the expectations that will preserve or increase in value and generate positive returns." (*Gitman & Jochnk;1990:114*)

"The investment (credit) policies of banks are conditional, 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 bank's credit policy also in mind." (*Singh & Singh;1983:442)*

"The commitment of funds to one or more assets that will be held over some future time period." (*Jones & Sons;1998:41*), Investment is the study of the investment process and is concerned with the management of an investor's wealth.

"Default risk arises because firms may eventually be bankrupt. Some default risk is undiversifiable because it is systematically related to the business cycle, which affects almost all investments. However, some default risk may be diversified away in a portfolio of independent investments". (*Francis; 1983:176*)

In broad sense, the investment operation of bank includes lending and investing in different types of securities. Lending is the primary investment activity and investment in different types of securities is the secondary investment activity of commercial banks.

Investment policies include credit analysis and its principle purpose is to determine the ability and willingness of a borrower to repay a requested loan in accordance with the terms of the loan contract. Factors considered in credit analysis are capacity to borrow, characters (honesty, integrity, industry, ability to create income, morality, ownership of assets, economic condition etc). Loans are the most important assets held by banks and bank lending provides the bulk of bank income. *(Reed et. al; 1980:82)*

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

Risk and profitability of various types of loans
Economic condition
Stability of deposits
Influence of monetary and fiscal policy
Capital portion
Ability and experience of bank personnel
Credit need of the areas served

2.1.4 Features of Sound Lending and Investment Policy

The income and profit of a bank largely depends upon its lending procedures, policies and investment of its funds in different securities. There is always a positive relation between the credit and the profitability of the bank. The greater the credit created by the bank, the higher will be its profitability. A sound lending and investment policy is not only the prerequisite for banks profitability, but also crucial for the promotion of commercial savings of a backward country like ours. Some of the main characteristics for sound lending and investment policies that must be considered by commercial banks are:

A. Safety and Security

A bank should always be cautious about the safety and security of its investments. It should never invest its funds in those securities which are too volatile i.e., which are subject to too much depreciation and fluctuation because a little difference may cause a great loss. Similarly, it should not invest its funds into speculative businessperson who may earn millions or be bankrupt in a split of seconds. It should always have a proper security that has been pledged for making investments. Securities means adequate collateral having good value, which can be easily sold off if, required at any point of time. The bank should accept those securities that are commercial, durable and marketable having a fair market value. For this purpose, the bank should apply "MAST" in order to reach to a proper investment decision, where MAST stands for

M = Marketability
A = Ascertainability
S = Stability
T = Transferability

The bank's capital structure consists of money borrowed from customers on various accounts. Therefore, it must take immense care while providing loans to borrowers. For this, risk and return must be properly analyzed, so that depositor's money is advanced safely. Hence, the bank should consider the 3c's in arriving to the decision regarding the advances of funds. The 3c's are Character, Capacity and Capital.

B. Liquidity

Liquidity is the ability of a firm to satisfy its short- term obligations when they become due for payment. People deposit money in bank on different accounts with the confidence that it will be able to repay their money when they need. In order to maintain this confidence and loyalty of the depositors, the bank must keep this point in mind while investing its excess funds in different securities, so that it can meet current or short- term obligations when they become due for payment.

C. Profitability

Profit is an income from an investment or transaction. It is the excess of income over expenditure during a period of time. Commercial banks can maximize its volume of wealth through maximization of return on their investments and lending. They must invest their funds rationally to those areas, which will maximize their profits. The profit of commercial banks depends upon the interest rates, volume of loans, its time period and nature of investment in different securities. Thus, the greater the ability of a bank to create credit, the higher will be its profitability.

D. Diversification

A bank should always bear in mind not to invest only in a particular sector. In fact, it should diversify its investments. Diversification helps to minimize risks and uncertainties. It is based on a popular saying, “do not put all the eggs in the same basket”; this is because diversification of loans helps to sustain loss according to the law of average. If securities of a company are deprived, there may be appreciation in the securities of other companies, which will minimize and recover the loss from the former. Hence, a good diversification theory advocates investment in various portfolios.

E. Legality

Banks should invest only in legal activities of a business. It should not invest in any kinds of illegal activities that may hamper its reputation as well as, if loss occurs, will solely be responsible for the loss of its investment. Illegal securities will bring out lots of problems for the investor. Therefore, a commercial bank must abide by the rules and regulations along with different sorts of directives issued by the central bank(Nepal Rastra Bank), Ministry of Finance, Ministry of Law and other relevant authorities while mobilizing its funds for its own interest.

F. Purpose of Loan

Loans are taken for various purposes hence, it is very important for the bank to know why this is taken or for what purpose for security reasons. If a borrower misuses the loan granted by the bank, the bank may suffer heavy loss. Therefore, in order to avoid such circumstances, it is essential that a bank examine all the essential documents and information about the scheme of the project and credit worthiness of the borrower before approving the loan. So, the purpose of the loan must be clearly stated in order to determine whether it is taken for a proper cause and whether the borrower will be able to repay it.

G. Tangibility

However, it may be considered that tangible property does not yield any income apart from direct satisfaction of possession of property, many a times;

intangible securities have lost their value due to price level inflation. A commercial bank should prefer tangible security to intangible ones.

H. National Interest

Every organization is driven with a selfish motive of its own profit maximization, which of course is not illicit, but at the same time, they should consider the national interest. Banks, though may not get maximum return from such investments, should carry out its obligation towards the society and the country. They are required to invest on such sectors as per the Government and Nepal Rastra Bank's instructions. Thus, banks are encouraged to invest in those sectors that will help to increase the national interest. Some examples of investment in national interest are investments in government bonds, priority and deprived sector lending etc.

2.2. REVIEW OF RELATED STUDIES

2.2.1 Review of Research Paper and Articles

This part of the study deals with the examination and reviewing of some related research papers, articles and journals published in different magazines, newspapers, World Bank discussion papers and economic journals and other related books and publications. However, there is not much articles published related to investment management in Nepal. As the country is poor and there is not much avenues for investment in different sectors due to the current scenario of the country, the study and application of investment management is still in infant stage except for some joint venture commercial banks.

Ramesh Lal Shrestha, (*2047 BS*), in his article, " *A study on deposits and credit of commercial banks in Nepal,*" concluded that the credit deposit ratio would be 51.30%, other things remaining the same, in 2004 A.D., which was the lowest under the period of review. Therefore, he had strongly recommended that the commercial banks should try to give more credit earning new field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

Bhagat Bista, (*2048 BS),* in his research paper, "*Nepalma Adhunik Banking Byabastha*" has attempted to highlight some of the important indicators, which have contributed to the efficiency and performance of joint venture banks in the field of commercial banks. He has concluded that the establishment of joint venture bank a decade ago marked the beginning of modern banking era in Nepal. The joint venture banks have bought in many new banking techniques such as computerization hypothecation, consortium finance and modern fee based activities into economy. These are indeed milestone in the financial significant development process of the economy.

Sunity Shrestha, (*1993*), in her research, "*Investment Planning of Commercial Banks in Nepal*", has made remarkable efforts to examine the investment planning of commercial banks in Nepal. From the study, what she concluded is that bank portfolio (loans and investment) of commercial banks had been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank. As a result, investments are not made in a professional manner. Similarly, investment planning and operation of commercial banks in Nepal have been found unsatisfactory in terms of safety, profitability, liquidity, productivity and social responsibility. To overcome this problem, she has suggested, "commercial banks should take their investment function with proper business attitude and should perform lending and investment operation effectively and efficiently with proper analysis of the projects."

Govind Bahadur Thapa, (*1994*), in his article "*Commercial Banks including foreign joint venture banks seems to be doing pretty well in mobilizing deposits. Similarly, loans and advances of these banks are also in an increasing trend. Nevertheless, compared to the high credit needs, particularly by the newly emerging industries, the bank still seems to lack adequate funds for investments. The banks are increasing their lending to non-traditional sectors along with the traditional sectors*".

Among several commercial banks, Nepal Bank Ltd. and Rastriya Banijya Bank are the only two that are operating with a nominal profit and sometimes incurring losses. Due to non-recovery of accrued interest, the margin between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount through traditional off-balance sheet operations. On the other hand, they have heavy burden of personnel and administrative overheads. Similarly, profit position of these banks has been seriously affected due to excessive accumulation of overdue and defaulting loans. Contrary to this, the foreign joint venture banks have been operating efficiently. They are making tremendous amount of profits and are distributing a large portion of it to its shareholders and employees as dividends and bonus. Because of their effective persuasion for loan recovery and management, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks in modern off-balance sheet activities and efficient personnel management has added to the maximization of their profits.

Shiba Raj Shrestha, (*1998*), has given an insight on the, "*Portfolio Management in Commercial Banks; Theory and Practice*." He has highlighted following issues in the article. The portfolio management is essential both for individuals and for institutional investors. Investors would like to select a best mix of investment assets subject to following aspects:

Good liquidity with adequate safety of investment

Flexible investment

Maximum tax concession

Certain capital gains

Economic, efficient and effective investment mix

Higher return compared with alternative opportunities available according to the risk class of investors

In view of above aspects, following strategies can be adopted:

Do not hold any single security i.e. try to have a portfolio of different securities.

Do not put all the eggs in one basket i.e. try to have a diversified investment.

Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return but with added objective of wealth maximization.

However, Mr. Shrestha has also presented following approach to be adopted for designing a good portfolio and its management:

To find out the risk of the securities depending upon the attitude of investor towards risk.

To identify securities for investment to refuse volatility of return and risk.

To find out the investible assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need, liquidity, tax liability, disposition.

To develop an alternative investment strategy for selecting a better portfolio that will ensure a trade-off between risk and return with a view to attach the primary objective of wealth maximization at lower risk.

Mr. Shrestha has presented two types of investment analysis techniques i.e.: fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instruments. He has suggested that the banks having international network can also offer access to global financial markets. He has pointed out the requirements of skilled work force, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence.

According to him, the portfolio management activities of Nepalese commercial banks at present are in promising stage. However, on the other hand, most of the banks are not doing such activities so far because of the following reasons:

Unawareness of the clients about the service available
Hesitation of taking risk by the clients to use such facilities
Lack of proper techniques to run such activities in the best and successful manner
Less developed capital market and availability of fewer financial instruments in the financial markets.

Radhe S. Pradhan, *(1994*), in his article, "*Financial Management and Practices in Nepal*" in 1992, dealt mainly with financial function, sources and types of financing, financing decision involving debt effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy. The main findings of the study connected with financial management are as follows:

Banks and retained earnings are the two most widely used financing sources.
The enterprises have a definite performance for bank loans at a lower level of debts.

Generally, there is no definite time to borrow the issue stocks. That is majorities of respondents are unable to predict when interest rate will lower or go up or are unable to predict when the stock will increase or decrease.
Most enterprise does not borrow from one bank only and they do switch between banks whichever offer best interest rates.
Most enterprises find that banks are flexible in interest rates and convenient.

Thus, to sum up it can be said that out of numerous studies in the capital market of Nepal, this study has established itself as a milestone.

F. Morris, *(1990)*, "*Latin America's Banking System in the 1980s*" in his discussion paper has concluded that most of the banks concentrated on compliance with central bank's rules on reserve requirements, credit allocation and interest rates. While analyzing loan portfolio, operating efficiency and soundness of bank investment management has largely been overlooked. The huge losses now found in the bank's portfolio in many developing countries are testimony to the poor quality of this oversight investment function.

He further adds that mismanagement in financial institutions has involved inadequate and overoptimistic loan appraisal, lower loan recovery, high-risk diversification of lending and investments, high-risk concentration, connected and insider lending, loan mismatching etc. This has led many banks of developing countries to the failure in 1980s.

Sekhar Bahadur Pradhan, (*1996*), has presented a glimpse on investment in different sectors, its problems and prospects through his article, "*Deposit Mobilization, its Problem and Prospects.*" On his article, he has expressed that, "*Deposit is the lifeblood of any financial institution, and be it commercial bank, finance company, co-operative or non-government organization.*" He also added, in consideration of 10 commercial banks and nearly three dozens of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks, other organization rely heavily on the business deposit receiving and credit disbursement.

In the light of this, Mr. Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective:

Due to the lesser office hours of banking system, people prefers for holding the cash in the personal possession.
Unavailability of the institutional services in the rural areas.
No more mobilization and improvement of the employment of deposits in the loan sectors.
Due to the lack of education, most Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance to deal with institutional system are governed by their low level of understanding about financial organization, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

Mr. Pradhan mentioned that deposit mobilization carried out effectively is in the interest of the depositors, society, financial sector and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

Sunity Shrestha, (*1998*), in her article, "*Lending Operation of Commercial Banks of Nepal and its Impact on GDP*", has presented with the objectives to make an analysis of contribution of commercial bank's lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz: agriculture, industry, commerce, service and general and social sectors as the independent variables. A multiple regression technique has been applied to analyze the contribution. The multiple regression analysis has shown that all the variables except service sector lending have a positive impact on GDP. Thus, in conclusion she has accepted that there has been positive impact by lending of commercial banks in various sectors of economy, except service sector investment.

Prabhakar Ghimire, (*1999*), has published an article *"Investment Practice of Commercial Banks"* in which he has mentioned that most of the commercial banks of Nepal are ready to pay the penalty instead of investing in rural, priority sectors, poverty stricken and deprived areas. In the directives of Nepal Rastra Bank, it is clearly mentioned that all the commercial banks (under NRB) should invest 12% of its total investments to the priority sectors. Out of this 12%, they should invest 3% to the lower class of compatriots. However, these commercial banks are unable to meet the requirements of NRB.

In the light of above, foreign joint venture banks use to justify that they do not have any network among these priority areas. So, if investment is made to these areas, operation cost will be high, that exceeds the penalty cost if investment is not made. That is why they are even ready to pay penalty rather than invest in priority sectors.

Dev Lal Kishi, (*1996*), in his article, "*The Changing Face of the Banking Sector and the HMG/N Recent Budgetary Policy*", concluded that following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy, more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily, the two government controlled banks, Nepal Bank Ltd. and Rastriya Banijya Bank have also shown an improvement of non-performing loans and are taking steps to adopt improved technology. However, higher economic growth with social justice brings a significant benefit to the poor, are yet to be achieved as envisaged by the HMG/N.

Krishna D. Bhattarai, (*2003*), has presented an article about the "*Non-Performing Assets (NPA) Management*". According to him, a loan is a very easy term for a borrower when he has already taken and for a lender not availed. It is equally difficult for a borrower to avail and for lender to recover. From a banker's view, it is just like a stone to roll down from the top of the hill while sanctioning, but too difficult to roll back the same stone to the top of the hill while recovering. A loan not recovered within the given timeframe either in the form of interest servicing or principal repayment is called non-performing loan. There are other parameters as well to quantify a NPL. Security not to the extent of loan amount with specified safety margin, value of security not realizable, possession not as per the requirement of bank, conflict of charges are some of the reasons which causes difficulties while recovering the loan.

According to him, NPL of a bank is like a cancer in a human body, which will collapse the entire bank if not taken care in time. This is an important discipline in banking to prevent the entire NPL or avoid situation for a loan to turn into NPL. Loan for banks is very essential to generate revenue for operational expenses as well as to provide return to the shareholders.

When a loan advanced from good money turns into a bad loan, the chances of shareholders return as well as the survival of the bank is at stake. Ailing banks cannot portray a better image in public. When a public looses the confidence on a bank and does not deposit, the bank will be in the verge of extinction. Therefore, deposits are the essence for a bank. A loan disbursed as good loan does not turn into bad overnight. It has certain course to turn into bad. An efficient bank management can recover the loan before turning it into bad and can save itself from the unwanted catastrophe. A general survey reveals following reasons why a good loan turns into a bad one:

<u>Situational Problems</u>

Poor analysis of project and its capital requirement leading to a situation of over/under capitalized.

Problem in managing the unit.

Faulty evaluation of loan and security.

Mismatch in demand and supply leading over inventory or under inventory.

Actual modus operandi is very different from the projection and unit unable to cope with the situation.

Sudden change in internal and external environment and project not being able to run according to its plan.

Collection of receivables unnecessarily delayed resulting delay in re-order and chances of business penetration by other competitors.

<u>Intentional Problems</u>

Intention to flee without settling the loan.

Intention to cheat the bank.

Intention to auction the property.

To relieve from other debts.

Malicious acts of both the bank staffs and the borrower.

To show other creditors of his bankruptcy, which is unmanageable.

To waive interest/ penal interest or avail discount on loan if paid in later stage when bank offers such facilities.

In conclusion, a borrowing may reflect one or all the above signals that may cause harm to the bank. There are few ways to protect bank from intentional defaulter but for those default caused by situations we can reschedule or restructure their facilities and help them to meet their debt obligation as per the cash flow they are having. Even an authentic loan that has been sanctioned with a good intention may turn into bad due to lack of proper management and carelessness. A bank must be one-step further than its customers must. It must collect all the relevant information that are required by the borrower for the establishment of a business and be rigid to give loan than to give his own money without any security.The security given by a borrower may be ample for the exposure. However, the borrower from other source of business may not be able to generate substantial earning to service the debt. Bank has the right to auction the property and liquidate the loan but in doing so realization from the auction of the property is always less than the value of the assets. This will serve neither the purpose of bank nor the borrower instead cause loss to both.

2.2.2 Review of Thesis

While preparing this thesis many other theses by previous students regarding various aspects of commercial banks has been studied. Some were relevant for this study while others were not. So, among those relevant theses some are presented henceforth.

Kedar Prasad Poudyal, (*1984*) in his research, "*Investment in Priority Sector with Special Rreference to Nepal Bank Ltd*." has put forward following objectives:

To analyze the repayment position of the priority sectors.
To find trends of priority sectors loan.
To analyze how far Nepal Bank Ltd. has been able to grant credit to priority sectors.
To examine the impact of loan on priority sectors.
To analyze the impact of probable cause of misuse of the loan by the borrowers.

Similarly, the major findings of the study were as follows:

The procedure of loan sanctioning is rather slow and clumsy.

Bank was not able to fulfill the purposed target of corresponding loan to the priority sector.

Banking procedures are so complicated that a layman is not able to understand it completely.

Loan repayment was more satisfactory from agriculture sector than the cottage industries and service sector.

Short-term credit was important for rural people.

Loan repayment was mainly due to the miss utilization of loan, other important causes are linked with social expenses like expenses in marriage ceremony, medical treatment, cremation etc.

Loan in priority sector has significantly generated the employment opportunity.

Loan in priority sector has increased the rural banking system in the rural areas and bank branch expansion.

The investment amount and percentage of priority sector investment on total deposits have up-going trend.

A sort of pressure groups like local people, politicians, administrators etc affect in loan granting process.

Dharma Raj Khanal, (*1987*) in his thesis entitled, "*Investment in Priority Sector by Commercial Banks (A Study of Commercial Banks of Kathmandu Valley)*" has put forward following objectives:

To analyze the trend of investment in priority sector.

To find out the extent of profitability affected in this sector.

To measure the efficiency of the program in the rural and urban sectors.

To evaluate the banking procedures and services in disbursing loans.

To explore the reasons for low investment.

The main findings of the research were as follows:

The investment in priority sector has an increasing trend.
Banks are giving due consideration to increase investment in the priority sector.
Due to low interest rate, overhead cost increased in administration and showed low profitability.
The regression analysis had shown a negative relationship between profit and investment.
The chi-square test has shown that the investment program in rural and semi-urban areas is more effective than in urban areas.
Banking procedure regarding loan disbursement in priority sector is much more complicated.
There is wide gap between demand and supply of loan.
Due to security and lack of proper legal documents most loan requesters have been rejected and even cancelled some of the projects in different sectors.

Raja Ram Khadka, (*1998*), has conducted a thesis research on, "*A Study on the Investment Policy of Nepal Arab Bank Ltd. in comparison to other joint venture banks of Nepal*."

The objectives of the research were as follows:

To find out the relationship between deposit and total investment, deposit and loans and advances, and net profit and outside assets of NABIL in comparison to other JVBs.
To evaluate the liquidity, assets management efficiency and profitability position in related fund mobilization of NABIL in comparison to other JVBs.

To evaluate the growth ratios of loans and advances and total investment with respective growth rate of total deposits and net profit of NABIL in comparison to other JVBs.

To evaluate the trends of deposit utilization and its projection for the next five years of NABIL in comparison to other JVBs.

To discuss fund mobilization and investment policy of NABIL in respect to its fee-based off balance sheet transaction and fund based on-balance sheet transactions in comparison to other JVBs.

To suggest and recommend some measures on the banks of comparative fund mobilization and investment policy of NABIL and other JVBs for the improvement of financial performance of NABIL in future.

The findings of the research were as follows:

The profitability position of NABIL is comparatively better than that of other JVBs.

The trend values of loans and advances to total deposit of NABIL and other JVBs are in increasing trend whereas, the trend value of total investment to total deposit of both NABIL and other JVBs are in increasing trend.

The liquidity position of NABIL is comparatively worse than that of other JVBs; NABIL has utilized more portions of current assets as loans and advances and less portion as investment in government securities.

There is significant relationship between deposit and loans and advances as well as outside assets and net profit whereas there is no significant relationship between deposit and total investment incase of NABIL and other JVBs too.

NABIL is comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation than that of other JVBs, which predicted that NABIL could not mobilize as efficiently as other JVBs and may lag behind in the comparative market of banking in the days to come.

NABIL seems to be more successful to increase sources of funds and its mobilization i.e. deposits, loans and advances and total investment but it seems to be a failure to maintain its high growth rate of profit compared to other JVBs.

There is no significant difference between mean ratio of loans and advances to total deposit, total investment to total deposit, government securities to current assets, loans and advances to current assets, return on loans and advances, total interest earned to total outside assets of NABIL and other JVBs whereas, there is significant difference between total OBS operation to loans and advances of NABIL and other JVBs.

Upendra Tuladhar, (*2000*) in his thesis entitled, *"A Study on the Investment Policy of Nepal Grindlays Bank Ltd. in Comparison to other Joint Venture Banks of Nepal*" has presented following objectives such as:

Study the fund mobilization, investment policy with respect to fee-based, and fund based off balance sheet transaction.

To evaluate the liquidity, efficiency of assets management and profitability position.

To evaluate the growth ratio of loans and advances and total investment with respective growth rate of total deposit and net profit of sample banks.

To evaluate the trends of deposit utilization towards total investment and loans and advances and its projection for five years.

To perform an empirical study of the customers' views and ideas regarding the existing services and adopted investment policy of the joint venture banks.

To provide suggestions and recommendations based on the study.

From the analysis of the primary data, 28.37% of the respondents emphasized investment on education sector. Similarly, 26.24% gave second priority to poverty-stricken and deprived sectors whereas industrial sector with 18.44%, tourism with 16%, agriculture with 16% and construction sector with 4.25% were given 3rd, 4th, 5th and 6th priority respectively.

Based on secondary data, following conclusions were drawn:

Nepal Grindlays Bank Ltd. has maintained consistent and successful liquidity than NABIL and Himalayan Bank Ltd.

The mean of total investment to total deposits ratio of Nepal Grindlays Bank is higher than that of other JVBs. The mean of the loans and advances to total deposit ratio of Nepal Grindlays Bank Ltd. is less and inconsistent than NABIL and Himalayan Bank Ltd.

Loans and advances to working fund ratio of Nepal Grindlays Bank Ltd. were found less than the mean ratio of other banks. Investment on government securities to working fund ratio of Nepal Grindlays Bank Ltd. had the highest mean ratio than NABIL and Himalayan Bank Ltd. during the study period.

It was found that the total off-balance sheet operation to loans and advances ratio of Nepal Grindlays Bank Ltd. is found to have highest mean ratio than that of NABIL and Himalayan Bank Ltd. It means Nepal Grindlays Bank Ltd. used to perform highest off-balance sheet operation than the other two JVBs i.e. it used to give priority to provide letter of credit, guarantee and others (e.g. trade finance) excessively than others.

The mean of investment on shares and debentures to total working fund ratio of Nepal Grindlays Bank Ltd. was found less than NABIL but higher than Himalayan Bank Ltd.

The profitability portion of Nepal Grindlays Bank Ltd. is higher than NABIL and Himalayan Bank Ltd. It also used to provide interest to customers for different activities constantly.

The volume of growth ratio of loans and advances of Nepal Grindlays Bank Ltd. is found higher than that of NABIL but lower than Himalayan Bank Ltd. It indicates that all the JVBs used to provide loan and advances in an increasing manner.

From the analysis of growth ratio of total investment it is found that, Nepal Grindlays Bank Ltd. and NABIL have negative growth ratio. i.e. they used to reduce the investment during the study period. However, in case of Himalayan Bank Ltd. it is increasing.

The growth ratio of net profit of Nepal Grindlays Bank Ltd. seemed to be more satisfactory than NABIL but in case of Himalayan Bank Ltd., it seemed to be very high.

Lila Prasad Ojha, (*2002*), conducted a study on, "*Lending practices: A Study on NABIL, SCBNL and Himalayan Bank Ltd.*" with the objective of:

To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.

To measure the banks' lending strength.

To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture priority and productive sector.

To measure the lending performances in quality, efficiency and its contribution in total income.

The findings of research are as follows:

The measurement of liquidity has revealed that the mean current ratio of all the three banks does not vary widely. All of them are capable in discharging their current liability by current assets.

The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan bank has high volume of saving and fixed deposits as compared to current deposits resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.

SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loans and advances to total assets ratio whereas NABIL has highest due to steady and high volume of loans and advances throughout the year.

The ratio of investment to investment and loans and advances has measured the total portion of investment in total of investment and loans and advances. The mean ratio among the banks does not have deviated significantly.

The loans and advances and investment to deposits ratio has shown that NABIL has deployed the highest proportion of its total deposits in earning activities. This indicates that NABIL is better in fund mobilizing activities.

The lending in commercial purpose is highest in case of NABIL and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47% of its total credit in general use and social purpose.

The absolute measures of lending strength have revealed that the mean volume of net assets and deposits is highest in SCBNL with moderate variation. The volume of net assets of Himalayan Bank Ltd. is the least due to the share capital, reserves and surplus in its capital mix. However, the volume contributed by Himalayan Bank Ltd. in case of loans and advances is highly appreciable as compared to its net assets. The volume of loans and advances contributed by NABIL is the greatest in five years of study period. The mean investment of NABIL is the highest but the investment on government securities of SCBNL is the highest.

The portfolio analysis has revealed that the flow of loans and advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of all the banks in industrial sector is appreciable. The contribution made by Himalayan Bank Ltd. in industrial sector is greatest and that of SCBNL is the least.

The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this case is the best. The ratio of total income to total expenses reflects the earning capacity of a rupee of expenses. The productivity of expenses in SCBNL is the best.

The measurement of efficiency in lending has revealed that the loan loss provision to loans and advances analysis shows that NABIL has the highest mean ratio. According to Nepal Rastra Bank's directive, the loan loss provision indicates the provision made against the performing loan (pass loan and sub-standard loan) only. It indicates that the volume of sub-standard loan in the loan mix of NABIL is higher and the volume of non-performing loan in the mix of NABIL is likely to increase in coming future.

The performance of SCBNL is significantly better than other two banks in case of profitability. Similarly, EPS is the highest in case of SCBNL.

The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Ltd. and lower in case of SCBNL. The interest expenses to total deposits ratio indicates that the cost of fund in Himalayan Bank Ltd. is the highest and that of SCBNL is the least.

Ganga Ram Manandhar, (*2003*), has conducted a thesis research on, *"A Comparative Study in Investment Policies of Finance Companies in the Context of Nepal."*

He has pointed out the following objectives:

To evaluate the trends of deposit utilization and its projection for the next five years in case of these companies.

To evaluate the liquidity, assets management efficiency and profitability position in relation to fund mobilization of above listed companies.

To evaluate the growth ratio of loans and advances and total investment with respective growth rate of total deposits and net profits of the companies.

To find out relationship between deposits and total investment, deposit and loans and advances and net profit and outside assets of the listed companies.

To discuss the fund mobilization and investment policy of these companies in respect to its fee based off-balance sheet transactions and fund based on-balance sheet transactions.

To suggest and recommend some measures on the banks of comparative fund mobilization and investment policy of these companies for the improvement of financial performance in future.

The findings of the research were as follows:

The liquidity position of National Finance and NEFINSCO are comparatively better than that of other companies. Nevertheless, that of Goodwill finance and Union finance seems to be quite weaker.

Most of the finance companies are successful in on-balance sheet utilization as well as off-balance sheet operation. Among them, NEFINSCO and Goodwill comes ahead of all.

Profitability position of most of the companies is comparatively not better.

Most of the finance companies are able to maintain the growth ratios among them. Nepal share markets seem to be more successful to increase their source of funds and mobilization as well as net profit.

There is significant relationship between deposits and loans and advances of all finance companies. Similarly, there is no significant relationship between deposits and total investment of all companies except NEFINSCO and Goodwill Finance Co. Ltd. There is also no significant relationship between outside assets and net profit of all companies except Union Finance Co. and National Finance Co. Ltd. The trend value of total investment to total deposit ratio and loans and advances to total deposit ratio are in increasing trend.

CHAPTER 3

RESEARCH METHODOLOGY

"Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view". (*Kothari; 1989:51)***.** In other words, research methodology describes the methods and processes applied in the entire aspect of the study. It is a way to solve the research problem systematically and scientifically. In fact research methodology is much vague than research methods i.e. research method is just a part of research methodology. It considers the logic behind the use of the methods in the context of research study and explains why a particular method or technique is used. Thus, research methodology is concerned not only about the different types of methods used but also about various other facts like what data have been collected, what are the purpose and problem of research, why hypothesis has been formulated etc. So, to sum up the research methodology that has been adopted for the study is mentioned in this chapter, which deals with research design, sources of data, data collection, population and sample, processing and tabulating procedures.

3.1 RESEARCH DESIGN

The present study is mainly based on two type of research design i.e. descriptive and analytical. Descriptive research design describes the general pattern of the Nepalese investors, business structure, problem of Investment policy etc. The analytical research design makes analysis of the gathered facts and information and makes a critical evaluation of it.

Finally research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. To achieve this study descriptive and analytical research designs have been used.

3.2 SOURCES OF DATA

The study is mainly concerned with the use of secondary data i.e. the annual reports of the concerned bank. However, besides the annual reports various other sources of data have also been used for the purpose of the study such as plan documents, newspapers, magazines, economic journals, NRB reports etc.

3.3 POPULATION

At present there are twenty-five commercial banks operating in Nepal, which is the population or universe of our study. Among these, I have selected only one bank for the purpose of the study as a sample and that is Standard Chartered Bank Nepal Ltd. (SCBNL).

3.4 METHOD OF ANALYSIS

The study primarily focuses on the analysis of liquidity, profitability, assets management and others that can be obtained from the financial statement of the bank. It also focuses on the use of various statistical tools such as mean, standard deviation, coefficient of variation, coefficient of correlation, coefficient of determination and trend analysis with a view to find out the true picture of the bank.

3.5 DATA ANALYSIS TOOLS

Data analysis involves breaking down the existing complex factors into simpler parts and putting them together in new arrangements for interpretation. It is the study of tabulated material in order to determine the inherent facts or meanings. Presentation and analysis of data is the core of the research work. Data that has been collected are first presented in systematic manner in tabular forms and are then analyzed by applying different financial and statistical tools to achieve the objectives of the study. The various tools applied are:

3.5.1 FINANCIAL TOOLS

Financial tools help to analyze the financial strength and weakness of a firm. One of the most important and commonly used financial tools that have been used in the study is ratio analysis. A ratio is simply a number expressed in terms of another and as such, it expresses the quantitative relationship between any two numbers. It may be expressed in terms of proportion, rates, and times or in percentage. Ratio Analysis is a technique of analysis and interpretation of financial statement. It is used to compare a firm's financial performance and status with other firms. The qualitative judgment has been done regarding financial performance of the firm with the help of ratio analysis. Ratio Analysis evaluates the performance of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement. It is the process of determining and interpreting numerical relationship between the items of financial statements. "It Provides Guide Especially in Spotting Ttrends Towards Better or Poor Performance and Finding out Significant Deviation from any Average or Relatively Applicable Standard" (*Dangol;, 1997:89*).

"Ratio Analysis is such a powerful tool of financial analysis that through it, economic and financial position of a business can be fully x-rayed" (*Kothari; 1990:556*)

"Ratio Analysis is used to compare a firm's financial performance and status to that of other firms or to itself overtime" (*Gitman; 1988:441*)

Thus, ratio analysis is a part of the whole process of analysis of financial statements of any business to take output and credit decisions. Among various ratios, those that are relevant for the study are discussed below:

A) LIQUIDITY RATIOS

Liquidity Ratio measures the firm's availability of funds, the solvency of the firm and the firm's ability to pay its obligation when balance is due. In fact, it measures the liquidity position of the firm. Similarly, it also measures the speed with which a bank's assets can be converted into cash to meet the deposit withdrawal and other current obligations. "The ratio flashes out picture of the capacity of an enterprise to meet its short term obligation out of its short term resources"|(*Pradhan;1986:276*). In order to ensure short-term solvency the company must maintain adequate liquidity. Liquidity should be neither too low nor too high. If the liquidity ratio of a company is too high it will unnecessarily be tied up in current assets and if it is to low it will result bad credit ratings and less creditor's confidence. Thus, the company should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and to avoid the risk of insolvency. Here are some of the liquidity ratios that have been used in the study.

i) Current Ratio

It shows the bank's short-term solvency. It indicates the extent to which current liabilities are covered by assets expected to be converted to cash in near future. Thus, it shows the relationship between current assets and current liabilities.

Current assets normally includes cash, marketable securities, accounts receivable, inventories, balance with banks, balance held abroad, inter-banking lending, bills purchased/discounted, 40% of loans and advances (assumption), interest receivable and staff loans and advances. Current liabilities includes current deposits, 60% of saving deposits, 40% of fixed deposits (assumption), other deposits (margin), Forex deposits, expense payable, short-term notes payable, bonus payable, current maturities of long term debt, accrued income taxes, proposed dividend and other accrued expenses (principally wages). It is calculated by dividing current assets by current liabilities.

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

The most accepted standard of current ratio is 2: 1 for banking and for seasonal business of 1:1.

ii) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the liquid current assets. This ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositor. The ratio is calculated by dividing cash and bank balance by total deposit.

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

Cash and Bank balance includes cash in hand, cheques and other cash items, balance with domestic and foreign banks. Total deposits include current deposits, saving deposits, fixed deposits, call deposits and other deposits.

iii) Cash and Bank Balance to Current Assets Ratio

It measures the proportion of liquid assets i.e. cash and bank balance among the total current assets of the bank. Higher the ratio higher is the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets.

$$\frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

iv) Investment on Government Securities to Current Assets Ratio

This ratio is calculated to find out the percentage of current assets invested in government securities i.e. treasury bills, development bonds etc. The ratio is calculated by dividing investment on government securities by total current assets.

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

v) Loans and Advances to Current Assets Ratio

This ratio can be computed by dividing loans and advances by current assets, which can be expressed as

$$\frac{\text{Loans and Advances}}{\text{Current Assets}}$$

B) ASSETS MANAGEMENT RATIOS

Assets Management Ratio is also known as Activity or Turnover Ratio. It is employed to evaluate the efficiency with which the firm manages and utilizes its assets. It measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liabilities ensures its effective utilization. It indicates the speed with which assets are being converted or turned over. The banking business converts the liability into assets by way of its lending and investing functions. Assets and liability management ratio measures its efficiency by multiplying various liabilities into performing assets. Thus, this ratio is used to measure how effectively a firm is managing its assets and the firm's ability to utilize its available resources. The ratios related to assets management are presented as:

i) Loans and Advances to Total Deposit Ratio

This ratio is also called as credit deposit ratio (CD Ratio). It is calculated to find out how successfully the banks are utilizing their total deposits on loans and advances for profit generating purpose. Higher the ratio, the better is the utilization of total deposits. It is calculated by dividing loans and advances by total deposit.

Loans and Advances
Total Deposits

ii) Total Investment to Total Deposit Ratio

Investment is the use of money for future profit. It is the outlay of money, for example, by depositing it in a bank or by buying stock in a company, to make a profit. Thus, investment is one of the major forms of credit created by the bank to earn income. It is the utilization of firm's deposit on government securities, shares and debentures or bonds of other companies and banks. This ratio is calculated by dividing total investment by total deposit.

Total Investment
Total Deposit

Total investment includes investment on government securities, debentures and bonds, shares in subsidiary companies, shares in other companies and other investments.

iii) Loans and Advances to Total Working Fund Ratio

Loans and advances are the major component in the total working fund (total assets) that indicates the ability of banks to channelize their deposits in the form of loans and advances to earn higher return. It is computed by dividing loans and advances by total working fund.

Loans and Advances
Total Working Fund

Total working fund includes all the assets of on balance sheet items while it excludes off balance sheet items like letter of credit, letter of guarantee etc.

iv) Investment on Government Securities to Total Working Fund Ratio

This ratio shows the bank's investment on government securities compared to that of the total working fund. It is calculated by dividing investment on government securities by total working fund.

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

v) Investment on Shares and Debentures to Total Working Fund Ratio

It shows the bank's investment in shares and debentures of the subsidiary and other companies. It is obtained by dividing investment on shares and debentures by total working fund.

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

The numerator includes investments on shares, debentures and bonds of other companies.

vi) Total Outside Assets to Total Deposit Ratio

Total outside assets includes loans and advances and investments of banks. It measures how well the banks are mobilizing their deposits liabilities in income generating activities. The ratio is obtained by dividing total outside assets by total deposits.

$$\frac{\text{Total Outside Assets}}{\text{Total Deposits}}$$

vii) Loans and Advances to Total Outside Assets Ratio

This ratio measures the contribution made by loans and advances in total amount of loans and advances and investments. The proportion between investments and loans and advances measures the management's attitude towards more risky assets and lower risky assets. Loans and advances are more risky and generate more returns compared to investments. It is calculated by dividing loans and advances by total outside assets.

$$\frac{\text{Loans and Advances}}{\text{Total Outside Assets}}$$

viii) Investment on Government Securities to Total Outside Assets Ratio

It measures the proportion of banks investment in risky area and risky free areas. This ratio is computed by dividing investment on government securities by total outside assets.

$$\frac{\text{Investment on Government Securities}}{\text{Total Outside Assets}}$$

ix) Total Outside Assets to Total Assets Ratio

Total outside assets of a bank includes loans and advances and investments. It is the proportion of assets employed by the bank for the purpose of income generation. The ratio shows the ability of the banks to utilize its funds into income generating assets. It is calculated by dividing total outside assets by total assets.

$$\frac{\text{Total Outside Assets}}{\text{Total Assets}}$$

x) Total Off-Balance Sheet Operation to Loans and Advances Ratio

The OBS operation shows the bank's efficiency in conducting modern off-balance sheet transactions compared to loans and advances i.e. issue of letter of credit, letter of guarantee etc. This ratio shows the proportion of fee-based off-balance sheet activities to fund based loans and advances of the bank. This ratio is calculated by dividing total OBS operations by loans and advances.

$$\frac{\text{Total Off-Balance Sheet Operation}}{\text{Loans and Advances}}$$

C) ACTIVITY OR PERFORMING RATIOS

Activity Ratio measures the performance efficiency of an organization from various angles of its operation. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short-term funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability. To measure the performance efficiency of the bank to utilize its funds these activity ratios are used.

i) Loan Loss Provision to Total Loans and Advances Ratio

The ratio of loan loss provision to total loans and advances describes the quality of assets that a bank is holding. Nepal Rastra Bank has given directives to commercial banks to classify its loans and advances into the category of pass, sub-standard, doubtful and loss on the basis of maturity of principal, to make the provision of 1, 25, 50 and 100 percentage respectively. The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loans and advances. The ratio is calculated by dividing loan loss provision by total loans and advances.

$$\frac{\text{Total Loan Loss Provision}}{\text{Total Loans and Advances}}$$

ii) Non-Performing Loans to Total Loans and Advances Ratio

It measures the proportion of non-performing loans on the total volume of loans and advances. Thus, it reflects the quantity of quality assets that the banks possess. Higher ratio reflects the bad performance of the bank in mobilizing loans and advances and bad recovery rate and vice versa. It is calculated by dividing the non-performing loans by total loans and advances.

$$\frac{\text{Non-Performing Loans}}{\text{Total Loans and Advances}}$$

D) PROFITABILITY RATIOS

Profitability Ratio is a group of ratios showing the effect of liquidity, asset management and debt management on operating results. It is used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. Higher the profitability ratio better is the performance of the banks. The various types of profitability ratios used in study are as follows.

i) Interest Income to Total Income Ratio

This ratio measures the volume of interest income in total income of the bank. Higher the ratio higher is the contribution made by the lending and investing activities and vice versa. It is calculated by dividing interest income by total income.

$$\frac{\text{Interest Income}}{\text{Total Income}}$$

ii) Total Interest Earned to Total Outside Assets Ratio

It measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. It is calculated by dividing total interest earned by total outside assets.

$$\frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

Total interest earned includes total interest income from loans and advances and investments, while total outside assets includes loans and advances, bills purchased and discounted, investment on government securities, shares and debentures and all types of investments.

iii) Interest Expenses to Total Expenses Ratio

It measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operational expenses and vice versa. It is calculated by dividing interest expenses by total expenses.

$$\frac{\text{Interest Expenses}}{\text{Total Expenses}}$$

iv) Total Interest Earned to Total Working Fund Ratio

It is calculated to find out the percentage of interest earned to total assets (working fund). Higher the ratio the better is the performance of the banks in terms of interest earning on its total working fund. It is calculated by dividing total interest earned by total working fund.

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

v) Total Interest Paid to Total Working Fund Ratio

It is calculated to find out the percentage of interest paid on liabilities with respect to total working fund. It is calculated by dividing total interest paid by total working fund.

$$\frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

vi) Total Income to Total Expenses Ratio

The comparison between total expenses and total income measures the productivity of expenses in generating income. The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is the indicator of higher productivity of expenses and vice versa. It is calculated by dividing total income by total expenses.

Total Income
Total Expenses

vii) Total Income to Total Working Fund Ratio

It measures how efficiently the assets of a business are utilized to generate income. It also measures the quality of assets in income generation. It is calculated by dividing total income by total working fund.

Total Income
Total Working Fund

viii) Return on Loans and Advances Ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loans and advances. It also measures the earning capacity of its loans and advances. The ratio is calculated by dividing net profit (loss) by loans and advances.

Net Profit (Loss)
Loans and Advances

The numerator indicates the portion of income left to the internal equities after deducting all costs, charges and expenses.

ix) Return on Total Working Fund Ratio (ROA)

The ratio of net profit to total working fund provides an idea of the overall return on investment earned by the firm. It measures the overall profitability of all working funds i.e. total assets. It is also known as return on assets (ROA). It is calculated by dividing net profit (loss) by total working fund.

Net Profit (Loss)

Total Working Fund

x) Return on Equity Ratio

The excess amount of total assets over total liabilities is called as net worth. It also refers to the owner's claim of the bank. This ratio measures how efficiently the banks have used the funds of the owners. It is calculated by dividing net profit (loss) by total equity capital (net worth).

Net Profit (Loss)

Total Equity Capital

Total equity capital includes shareholder's reserves including profit and loss account, general loan loss provision and share capital i.e. ordinary share and preference share capital.

xi) Earning Per Share (EPS)

EPS refers to net profit divided by the total numbers of common shares outstanding. The amount of EPS measures the efficiency of a firm in relative terms. It is calculated by dividing total net profit (loss) by total number of common shares.

Net Profit (Loss)

Total No. of Common Shares

xii) Net Interest Margin

Net interest margin is the difference between the interest received from investment on loans and advances and interest paid on deposits collected by the banks. It shows the bank's efficiency to earn high profit in order to meet various costs. Higher ratio shows higher profitability and vice versa. It is calculated by dividing the difference between interest revenues from earning assets less interest costs on borrowed funds by total earning assets.

$$\frac{\text{Interest Revenues from Earning Assets- Interest Costs on Borrowed Funds}}{\text{Total Earning Assets}}$$

Interest revenues from earning assets is the total interest income of the bank and interest costs on borrowed funds is the total interest expenses of the bank. Total loans and advances comprise the total earning assets of the bank.

E) RISK RATIOS

Risk taking is the prime business of bank's investment management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risks associated with the various banking operations, which ultimately influences the bank's investment policy. Following ratios are evaluated under this topic.

i) Credit Risk Ratio

It measures the possibility whether the loan will be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. Credit risk ratio is expressed as the percentage of non-performing loan to total loans and advances. Here, dividing total loans and advances by total assets derives this ratio.

$$\frac{\text{Total Loans and Advances}}{\text{Total Assets}}$$

ii) Capital Risk Ratio

It indicates how much assets value may decline before the position of depositors and other creditors are jeopardize. It is directly related to the return on equity (ROE). Higher the ratio, lower is the capital risk and vice versa. This ratio is computed by dividing capital (paid up + reserves) by risk-weighted assets as computed under BASLE committee's formula, which is given as.

$$\frac{\text{Capital (paid up+ reserves)}}{\text{Risk Weighted Assets}}$$

F) GROWTH RATIOS

Growth Ratios are directly related to the fund mobilization and investment management of a commercial bank. It represents how commercial banks are maintaining their economic position. Thus, in order to examine and analyze the expansion and growth of the banking business, following growth ratios are calculated.

i) Growth Ratio of Total Deposits
ii) Growth Ratio of Loans and Advances
iii) Growth Ratio of Total Investment
iv) Growth Ratio of Net Profit

Formulae: $D_n = D_o (1+g)^{n-1}$

where,

D_n = Value of D at the n^{th} period

D_o = Value of D at the Zero period

G= growth rate

n= no of years

3.5.2 STATISTICAL TOOLS

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data. With the use of statistical tools, it becomes easy to convert abstract problems into figures and complex data in the form of tables. Some of the statistical tools used in the study are as follows:

A) ARITHMETIC MEAN

An arithmetic mean is also called as ‘the mean’, ‘average’ or the ‘arithmetic average’. A mean is the average value or the sum of all observations divided by the number of observations. An arithmetic mean is used in a situation of studying practical problems relating to production, price, income, expenditure, temperatures etc. but it is not useful for qualitative characteristic open-ended classes etc. It is denoted and given by the formula:

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

Where,

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

n = Number of observations.

$\sum x$ = Sum of observations.

B) STANDARD DEVIATION

A standard deviation is the positive square root of average sum of squares of deviations of given observations from the arithmetic mean of the distribution. It measures the absolute dispersion and gives uniform, correct and stable results. Higher the value of standard deviation higher will be the variability and vice versa. A standard deviation is always a positive number and is superior to mean deviation, quartile deviation and the range as it is used for further mathematical treatment. It is used in order to reduce the unit of measurement. Karl Pearson was the first to introduce this concept in 1823 A.D. and it is denoted by a small Greek letter σ (sigma). Standard deviation is calculated by using the formula:

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

C) COEFFICIENT OF VARIATION

The percentage measure of co-efficient of standard deviation is called co-efficient of variation (c.v.). It is used for comparing the homogeneity, uniformity and variability of two or more distribution. It is the most commonly used measure of relative variation. It is used in such problems where the researchers want to compare the variability of more than two years. Greater the c.v. more variable or conversely less consistent, less uniform or less homogeneous from others. Lower the c.v., the less variable or more consistent, more uniform or more homogeneous. C.V. measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability. The co-efficient of variation (C.V.) is given by the following formula.

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\overline{X}} \times 100$$

D) CORRELATION

Correlation refers to measure of relationship between two or more characteristics of a population or a sample. It measures the changes between the phenomenons. If two quantities vary in a related manner so that a movement: an increase or decrease in one accompanied by a movement in the same or opposite direction in the other, they are called correlated. If the relationship is direct, they are called positively correlated and if it is inverse, they are called negatively correlated. Similarly, if any change in one does not affect the other variable it is called uncorrelated. Correlation may be perfect, imperfect or zero. The relationship between two or more variables is computed by multiple and partial correlation. The reliability of the value of coefficient of correlation is measured by probable error. The limits of correlation vary from -1 to +1. Karl Pearson's coefficient of correlation (r) is given by the formula:

$$\text{Coefficient of Correlation (r)} = \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}}$$

Where,

$X = x - \overline{X}$

$Y = y - \overline{Y}$

Interpretation of Correlation:

When r= +1, perfectly positive correlation

r= -1, perfectly negative correlation

r= 0, no correlation

r is between 0.7 to 0.999, there is moderate degree of correlation

r is less than 0.5, there is low degree of correlation

In this section of the study, Karl Pearson's coefficient of correlation has been used to find out the relationship between the following variables:

i) Correlation between Deposits and Loans and Advances
ii) Correlation between Deposits and Investments
iii) Correlation between Loans and Advances and Net Profit
iv) Correlation between Investments and Net Profit

E) COEFFICIENT OF DETERMINATION

It gives the percentage variation in the dependent variable that is explained by the independent variables. By the computed value of coefficient of determination, we can conclude that the percentage variation in the dependent variable is due to the variation in the independent variable and the remaining portion of the variation is due to the other factors. Coefficient of determination is the square of coefficient correlation and is given by (r^2).

F) PROBABLE ERROR

It is used for testing the reliability of an observed value of correlation coefficient. After the computation of correlation of coefficient, probable error is computed to find the extent to which it is dependable. If the value of correlation of coefficient is greater than 6 times the value of probable error, the observed value of correlation of coefficient is said to be significant and reliable, otherwise nothing can be concluded with certainty. Nevertheless, if the value of correlation of coefficient is less than probable error then it is said to be insignificant and there is no evidence of correlation. The formula for probable error is given by:

$$\text{Probable Error (P.Er.)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

G) TREND ANALYSIS

One of the most popular and mathematical method of determining the trend of time series is the least square method. By using this method, we can estimate the future trend values of different variables. Hence, for the estimation of linear trend line following formula is used.

$y_c = a + bx$

Where,

y_c = Dependent variable

x = Independent variable

a = y intercept

b = slope of the trend line

Thus, using this method, trend analysis of following variables is conducted.

i) Trend analysis of Total Deposit
ii) Trend analysis of Loans and Advances
iii) Trend analysis of Investment
iv) Trend analysis of Net Profit

CHAPTER - 4

DATA ANALYSIS AND PRESENTATION

The purpose of this chapter is to study, evaluate and analyze those major financial performances, which are mainly related to investment management and fund. Mobilization of Standard Chartered Bank Ltd. There are many types of financial ratios but only those ratios are calculated and analyzed, which are very important to evaluate fund mobilization of commercial bank. Necessary figures and tables are also presented in this part to describe about the investment mechanism of the banks.

4.1 Financial Tools

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed. Various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of SCBNL. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned banks. The important and needed financial ratios, which are to be calculated for the purpose of this study, are mentioned below:

a) Liquidity Ratio

b) Assets management Ratio

c) Profitability Ratio

d) Risk Ratio

e) Growth Ratio

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, with drawls pay maturity in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long run profit.

The following ratios are evaluated and interpreted under liquidity ratios.

(i) Current Ratio

Current ratio indicates the ability of a bank to meet its current obligation. This is the broad measure of liquidity position of the financial institution. Current ratio is derived by dividing current assets by current liabilities.

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

Where,

Current assets consist of cash and bank balance, money at call or short-term notice, loan and advances, investment in government securities and other interest receivable and other miscellaneous current assets.

Current liabilities consist of deposits, loan and advances, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Table 4.1

Current Ratio (Times)

Banks	**Fiscal Year**					**Mean**	**S.D**	**C.V (%)**
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**			
SCBNL	0.971	0.9698	1.0226	0.981	0.946	0.978	0.028	2.86%

Sources: Appendix 1(i)

The above table shows that the current liabilities of SCBNL have exceeds current assets in average in the study period. The highest ratio is 1.02 in 2004/05 while the lowest is 0.946 in 2006/07 with an average ratio of 0.978 during the study period. The ratio shows the fluctuating trend during the period. The coefficient of variation (C.V) between the ratios for the study is 2.86% which shows that current ratio during the study period are not so consistent. In general, the bank is not in good condition to meet its short term obligation.

Generally, the standard of the current ratio is 2:1 but for the banks and financial institution 1:1 is considered as the standard current ratio .

(ii) Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)

Cash and bank balance is said to be the first defense of every banks. 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 and vice versa. But every high ratio is not desirable since bank has to pay interest on deposits. This will also maximize the cost of fund to the bank.

$$\text{Cash and bank balance to total deposit ratio } = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

Where,

Cash and bank balance is composed of cash on hand including foreign cheques, other cash items; balance with domestic banks and abroad. Deposit includes current deposits, saving, deposits, fixed deposits, money at call or short notice and other types of deposits.

Table 4.2

Cash and Bank Balance to Total Deposit (%)

Banks	**Fiscal Year**					**Mean**	**S.D**	**C.V (%)**
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**			
SCBNL	8.06	9.56	5.75	5.53	8.21	7.42	1.73	23.3%

Sources: Appendix 1(ii)

The above table shows that the ratio of cash and bank balance to total deposit ratio is in fluctuating trends. The highest ratio is 9.56 % in 2003/04 while the lowest ratio is 5.53% with standard deviation of 1.73 % and coefficient of variation of 23.31%. According to NRB guidelines, there should be minimum balance of 6% of total deposit liability. The above analysis of cash and bank balance to total deposits shows that SCBNL is successful in maintaining this balance.

(iii) Cash and Bank Balance to Current Assets Ratio

This ratio shows the bank liquidity capacity on the basis of cash and bank balance that is the most liquid asset. Higher ratio indicates the bank ability to meet the daily cash requirement of their customer deposit and vice versa. But higher ratio is not preferred, as the bank has to pay more interest on deposit ad will increase the cost of fund. Lower ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers. Therefore, bank has to balance the cash and bank balance to current assets ratio in such a manner that it should have the adequate cash for the customers demand against deposit when required and less interest is required to be paid against the cash deposit. (Details in Annexure - A3)

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

Table 4.3

Cash and Bank Balance to Current Assets Ratio (%)

Banks	**Fiscal Year**					**Mean**	**S.D**	**C.V (%)**
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**			
SCBNL	8.85	10.76	5.53	5.94	9.18	7.91	2.04	25.8%

Sources: Appendix 1(iii)

The above table shows that the cash and bank balance to current assets ratio of SCBNL has fluctuating trend. The highest ratio is 10.76% in 2003/04 and the lowest ratio is 5.53% in 2004/05. Similarly, the mean of the ratio for the study period is 7.91% and the C.V. is 25.8%. Based on the C.V., we can conclude that the ratio is less consistent and more variable. The bank can meet its daily requirements to make the payments on customer deposits withdrawals.

(iv) Investment on Government Securities to Current Assets Ratio

The commercial banks are interested to invest their collected funds in various government securities issued by government. Though government securities are not so much liquid as cash & bank balance, they can be easily sold in the market or they ca be converted into cash in other ways. The main purpose of this ratio is to examine the portion of commercial banks current assets that is invested on different government securities.

Investment on government securities to current assets ratio

$$= \frac{\text{Investment Govt. Securities}}{\text{Current Assets}}$$

Table 4.4

Investment on Government Securities to Current Assets Ratio (%)

Banks	**Fiscal Year**					**Mean**	**S.D**	**C.V (%)**
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**			
SCBNL	38.52	39.56	37.28	40.22	32.27	36.97	3.23	8.75%

Sources: Appendix 1(iv)

The above table shows that the investment on government securities to current assets ratio of SCBNL has fluctuating trend with the highest ratio of 40.22% in 2005/06 and lowest ratio is 32.72% in 2006/07. The mean ratio of the bank is 36.97% and C.V. is 8.75% thus the ratios are inconsistent and volatile.

(v) Loan and Advances to Current Assets Ratio

Loan and advances are also included is the current assets of commercial banks because generally it provides short-term loan, advances/overdraft/ cash-credit, local and foreign bill purchased and discounted.

To make a high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earnings, but high loan and advances may also be harmful to keep the bank is most liquid position because they can only be collected at the time of maturity only. Thus, the bank must maintain its loan and advances in appropriate level to find out portion of current asset, which is granted as loan and advances.

$$\text{Loan and advances to current assets ratio (\%)} = \frac{\text{Loan \& Advances}}{\text{Current Assets}}$$

Table 4.5

Loan & Advances to Current Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
SCBNL	33.34	31.40	42.14	41.61	47.68	39.33	6.58	16.74%

Sources: Appendix 1(v)

The above table shows that the ratios of the bank are in fluctuating trend. The highest ratio is 47.68% in 2006/07 and the lowest ratio is 31.40% in 2003/04. The mean ratio of the bank is 39.33% and C.V. is 16.74%. Since, the bank is in better position to mobilize its fund as loans and advances with respect to current assets.

4.1.2 Assets Management Ratio (Activity Ratio)

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner.

A commercial bank must manage is assets property to ear high profit. Under this chapter following ratios are studied.

(i) Loan and Advances to Total Deposit Ratio.

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances.

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

Table 4.6

Loan & Advances to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
SCBNL	30.36	30.30	42.12	38.75	42.61	36.86	5.47	14.85%

Sources: Appendix 1(vi)

The above table shows that the loans and advances to total deposit ratio are in fluctuating trend. The lowest ratio is 30.30% in 2003/04 and the highest ratio is 42.61% in 2006/07. The average mean ratio is 36.86% with the standard deviation of 5.47% and coefficient of variation is 14.85%. Higher the ratio shows that the bank is in better position to mobilize its total deposits as loan and advances**.**

(ii) Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposits by investing its fund is different securities issued by government and other financial or no financial institutions. Now, effort has been made to measure the extent to which the banks are successful is mobilizing the total deposits on investment.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement Central banks norms etc are to be considered in general. A high ratio is the indicator of high success to mobilize the baking fund as investment and vice versa.

Total investment to total deposit ration $\frac{\text{Total Investment}}{\text{Total Deposit}}$

Table 4.7

Total Investment to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V
	2002/03	2003/04	2004/05	2005/06	2006/07			(%)
SCBNL	54.47	53.68	50.18	55.71	55.10	53.83	1.94	3.6%

Sources: Appendix 1(vii)

In the above table, the ratios of SCBNL are in fluctuating trend during the study period. The highest ratio is 55.71% in 2005/06 and the lowest ratio is 50.18% in 2004/05 with the mean ratio of 53.83%. The C.V. 3.6% shows that the ratios are less consistent and more variable.

(iii) Loan & Advances to Total Working Fund Ratio

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

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

Where, total working fund is the total assets. It is composed up of current assets, fixed assets, miscellaneous assets and investment: loans for development bank etc.

Table 4.8

Loan & Advances to Total Working Fund Ratio %

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
SCBNL	27.24	27.11	37.19	34.67	36.73	32.59	5.03	15.44

Sources: Appendix 1(vii)

The above table shows that the highest ratio is 37.19% in 2004/05 and lowest ratio is 27.11% in 2003/04. Similarly, the mean ratio is 32.59% and the C.V. is 15.44%, which indicates that the mobilization of total working fund in to loan and advance is in fluctuating condition.

.

(iv) Investment on Government Securities to Total Working Fund Ratio

All the resources to a bank are not used as loan and advances. A bank mobilize its fund is various ways. To some extent commercial bank seems to utilize its fund by purchasing government securities. A government security is a safe medium of investment though it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund or different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as investment o government securities is a current asset which is invested by external parties. These types of securities can be sold in the market.

Investment an government securities to total working fund ratio

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

Table 4.9

Investment on Government Securities to Total Working Fund Ratio (%)

Bank	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
SCBNL	31.47	33.62	31.90	33.54	24.85	31.28	30.70	11.8%

Sources: Appendix 1(ix)

From the above table we can see that the ratio is in fluctuating trend. The lowest ratio is 24.85% in 2006/07 and highest ratio is 33.62% in 2003/04. The mean ratio was found to be 31.28% with 30.70% standard deviation and coefficient of variation of 11.8%. The ratios do not seem to be consistent during the study periods.

(iv) Investment on shares and Debentures to Total Working Fund Ratio

To study the investment management of NABIL and SCBNL bank, total investment has been separated into two parts i.e. Investment on government securities and investment on shares and debentures. Now a day a commercial bank is interested to invest its funds not only on government securities but also in shares & debentures of other different companies and regional development banks.

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

Investment on shares and debentures to total working fund ratio

$$= \frac{\text{Investment on Shares \& Debentures}}{\text{Total Working Fund}}$$

Table 4.10

Investment on Shares & Debenture to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
SCBNL	0.05	0.05	0.06	0.06	0.16	0.076	0.047	62.13%

Sources: Appendix 1(x)

The above table shows the ratios are in increasing trend during the study period. The highest ratio is 16% in 2006/07 and the lowest ratio is 5% in 2002/03. The mean ratio is found to be 7.6% with 62.13% C.V. between them. Bank shall invest in the shares and securities of organized institutions, which are already listed in stock exchange or arrangement exists for listing with in one year.

4.1.3 Profitability Ratio

Profit is the lock bone of the financial institutions and commercial banks. The main objective of a commercial bank is to earn profit providing different types of banking services to its customers. To meet various objectives like to have a good liquidity position, meet fixed internal obligation, overcome the future contingencies, grab hidden investment opportunities, expend banking transitions in different places and finance government in need of development funds etc, a commercial bank must earn sufficient profit.

Profitability ratios are the best indicators of overall efficiency. Here mainly those ratios are presented and analyzed which are related with profit as well as investments. An effort has been made to measure the profit earning capacity of SCBNL through the following ratios.

(i) Return on Total Working Fund Ratio

It measures the profit earning capacity by utilizing available resources ie, total assets.

Return will be higher if the banks working fund is well managed and are efficiently utilized, maximizing taxes with in legal options available will also improve the return.

$$\text{Return on total working fund ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

Where,

Net profit includes the profit that is left to the internal equities after all costs, chares & expenses

Table 4.11

Return on Total Working Fund Ratio (%)

Banks	**Fiscal Year**					**Mean**	**S.D**	**C.V (%)**
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**			
SCBNL	2.42	2.27	2.46	2.55	2.42	2.42	0.10	4.18%

Sources: Appendix 1(xi)

The above table exhibits that the ratio of SCBNL it's in fluctuating trend with the highest ratio of 2.55% in 2005/06 and lowest ratio of 2.27% in year 2003/04. The mean ratio is 2.42% with the CV is 4.18% which shows the ratio is less volatile.

(ii) Total Interest Earned to Total outside Assets Ratio

It reflects that the extent to which the bank is successful to earn interests 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 asset is the outside Assets of a commercial bank.

$$\text{Total interest earned to Total outside Assets} = \frac{\text{Total Interest Earned}}{\text{Total Outside Asset}}$$

The total outside assets includes loan & advances investment in government securities, share and debentures and other all types of investment.

Table 4.12

Total Interest Earned to Total Outside Assets Ratio (%)

Banks	**Fiscal Year**					**Mean**	**S.D**	**C.V (%)**
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**			
SCBNL	14.9	5.86	5.93	5.46	5.87	7.66	4.08	53.72%

Sources: Appendix 1(xii)

The ratio is fluctuating but in decreasing trend. The highest ratio is 14.9% inn year 2002/03 and lowest ratio is 5.46% in year 2005/06. The mean ratio is 7.66% and standard deviation is 4.08 with the CV of 53.72.

(iii) Return on Loan & Advances Ratio

Return on loan & advances ratio measures the earning capacity of a commercial bank on its mobilized fund based loan and advances. A high ratio indicates a greater success to mobilize fund and vice versa.

$$\text{Return Loan \& Advances Ratio} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

Table 4.13

Return on Loan & Advances Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
SCBNL	8.9	8.41	6.62	7.37	6.6	7.58	1.64	13.77%

Sources: Appendix 1(xiii)

The above table shows that the bank's return on loan and advances are in fluctuating trend. The highest profit ratio is 8.9% in 2002/03 and the lowest is 6.6 in the year 2006/07. The mean ratio is 7.58 and the CV is 13.77.

(iv) Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful is mobilizing their total assets to generate high income as interest. A high ratio is indicator of high earning power of the bank on its total working fund and vice versa.

$$\text{Total interest earned to total working fund ration} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

Table 4.14

Total Interest Earned to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
SCBNL	4.81	4.41	4.83	4.61	5.94	4.72	0.21	4.45%

Sources: Appendix 1(xiv)

The above table shows that the ratios are in fluctuating trend. The highest ratio is at the fifth year of the study period i.e. 5.94% and the lowest ratio is at the second year of the study period i.e. 4.41%. The mean ratio is 4.72 and the C.V. is 4.45% which is very high. Thus, the ratios are less consistent and more variable. Hence the bank has paid less interest on its total working fund as a whole.

(v) 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 and vice versa.

$$\text{Total interest paid to total working fund ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

Table 4.15

Total Interest Paid to Total Working Fund Ratio

Banks	**Fiscal Year**					**Mean**	**S.D**	**C.V (%)**
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**			
SCBNL	1.22	1.20	1.16	1.20	1.44	1.24	0.11	9.02%

Sources: Appendix 1(xv)

The above table shows that the ratios are in fluctuating trend. The highest ratio is at the fifth year of the study period i.e. 1.44% and the lowest ratio is at the third year of the study period i.e. 1.16%. The mean ratio is 1.24 and the C.V. is 9.02% which is very high. Thus, the ratios are less consistent and more variable.

(vi) Return on Equity

Equity capital of any banks is its owned capital. The prime objective of any banks is wealth maximization or in other words to earn high profit and maximizing return to its shareholders. ROE is the measuring rod of the profitability of banks. It reflects the extent to which the banks has been successful to mobilize it's equity capital. A high ratio indicates higher success to mobilize its owned capital and vice versa.

$$\text{Return on equity} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

Table 4.16

Return on Equity Ratio (%)

Banks	Fiscal Year					Mean	SD	CV (%)
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**			
SCBNL	37.03	35.96	33.89	37.55	32.68	35.42	2.08	5.86%

Sources: Appendix 1(xvi)

The above table shows that the ratios are in fluctuating trend. The highest ratio is at the fourth year of the study period i.e. 37.55% and the lowest ratio is at the last year of the study period i.e. 32.68%. The mean ratio is 35.42 and the C.V. is 5.86% which is very high. Thus, the ratios are less consistent and more variable.

4.1.4 Growth Ratio

Growth ratios are directly related to the fund mobilization and investment management of a commercial bank. It represents how well the commercial banks are maintaining the economic and financial position. Under this topic, four of growth ratios are studies which are as follows:

(i) Growth Ratio of Total Deposit.

(ii) Growth of Total Loan and Advances.

(iii) Growth of Total Investment.

(iv) Growth ratio of Total Net Profit.

Table 4.17

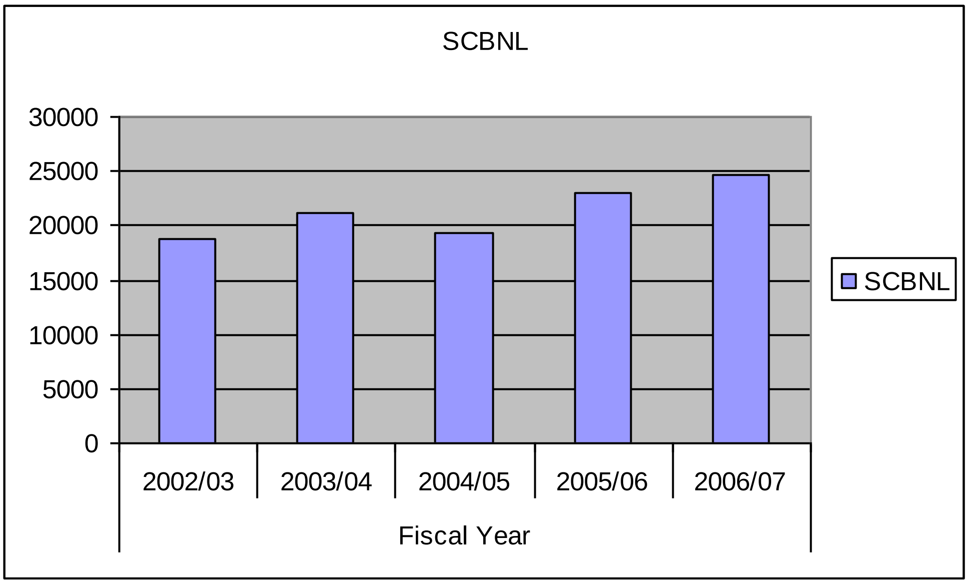
Growth Ratio of Total Deposit (%)

Banks	Fiscal Year					GrowthRatio
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**(%)**
SCBNL	18756	21161	19335	23061	24647	7.06%

Sources: Appendix 1(xvii)

Figure 4.1

Growth ratio of Total Deposit



The above table shows that the growth ratio of the bank is 7.06%, which isn't sufficient growth rate of SCBNL. The total deposit was highest in 2006/07 and lowest in 2002/03 but it has decreased in2004/05 and then again increased from 2005/06 by which can be predict that deposit has increasing trend.

Table 4.18

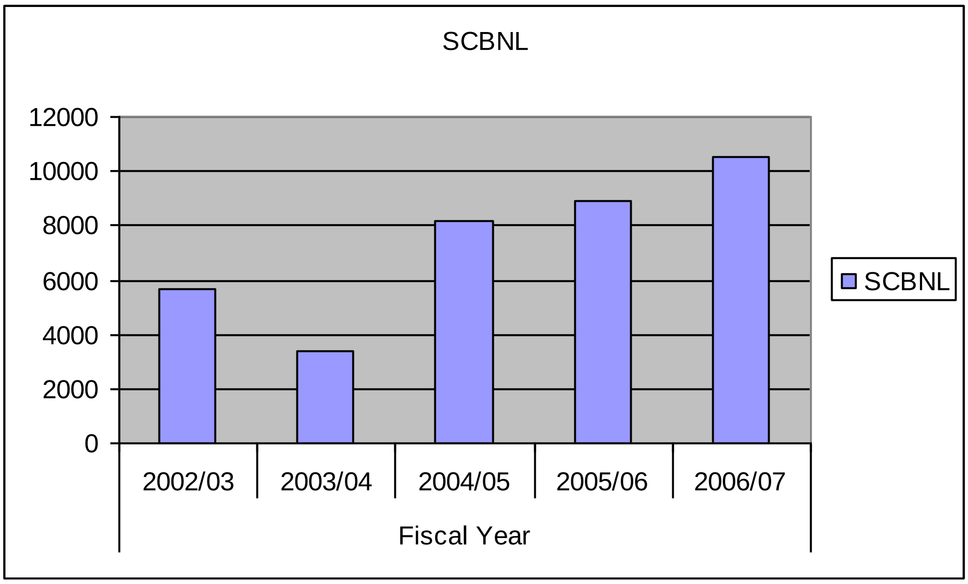
Growth Ratio of Loan and Advances (%)

Banks	Fiscal Year					GrowthRatio
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**(%)**
SCBNL	5696	3410	8143	8935	10502	16.53%

Sources: Appendix 1(xviii)

Figure 4.2

Growth Ratio of Loan and Advances



The above table shows that the loans and advances are in fluctuating order. The highest amount was in 2006/07 and the lowest amount was in 2003/05 The net growth rate in 16.53% during the study period..

Table 4.19

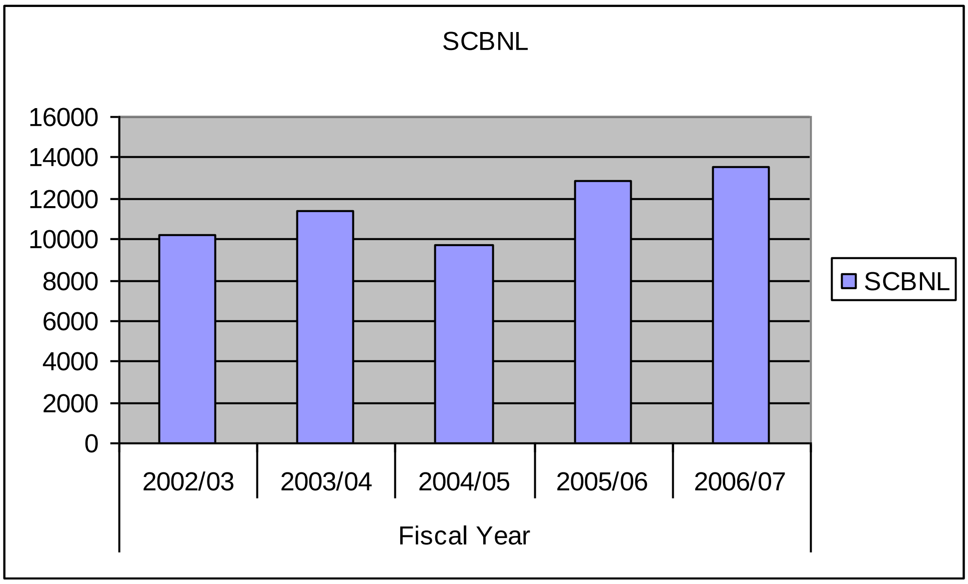
Growth Ratio of Total Investment

Banks	**Fiscal Year**					**Growth Ratio (%)**
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	
SCBNL	10216	11360	9703	12848	13553	7.32%

Sources: Appendix 1(xix)

Figure 4.3

Growth Ratio of Total Investment



The above table shows that the net growth rate of the bank is 7.32% with the highest investment of Rs.13553 million in 2006/07 and the lowest of Rs. 9703 million in 2004/05.

Table 4.20

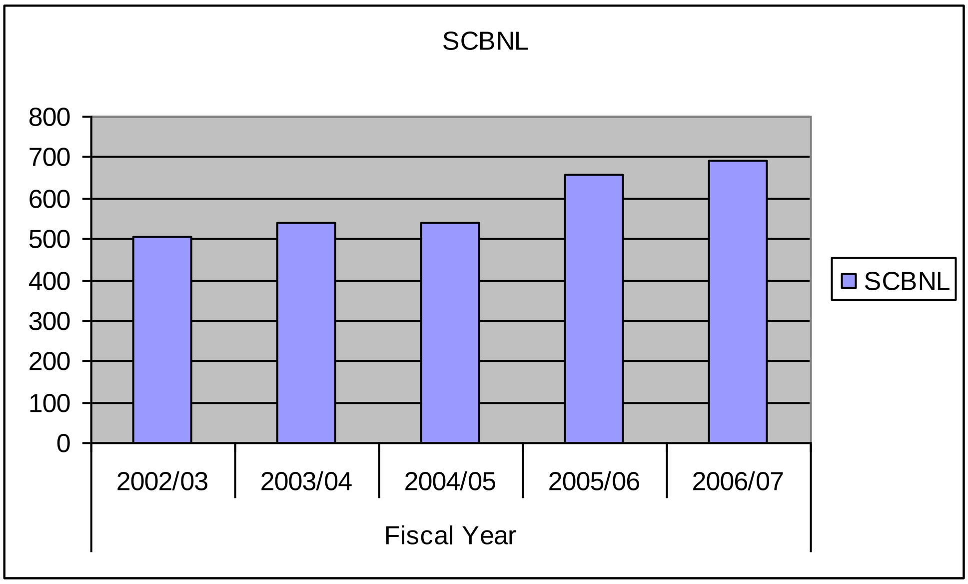
Growth Ratio of Total Net Profit

Banks	**Fiscal Year**					**Growth Ratio (%)**
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	
SCBNL	507	538	540	659	692	8.08%

Sources: Appendix 1(xx)

Figure 4.4

Growth Ratio of Total Net Profit



The above table shows that the net profit of SCBNL is in increasing trend and the growth ratio is 8.08.

4.2 Statistical Tools

Under this heading some statistical tools such as co-efficient of correlation analysis between different various, trend analysis of deposits, loan and advances, investment and net profit as well as hypothesis test are used to achieve the objectives of the study.

4.2.1 Coefficient of Correlation Analysis

Correlation analysis is the relationship between dependent variables so it is called constant variable also. Correlation is denoted by ‘r’ and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating perfect negative perfect correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated.

In this chapter, correlation between deposit & total investment, deposit and loan & advances and outside assets & net profit have been calculated. Then results have analyzed and interpreted and then significance of correlation has been tested using Karl Pearson's correlation of co-efficient.

Interpretation of Correlation Co-efficient

It lies always between +1 to -1.

When r= +1, there is perfect positive correlation.

When r= -1, there is perfect negative correlation.

When r= 0, there is no correlation.

When r lies between 0.7 to 0.999, (-0.7 to -0.999) there is a high degree of positive or negative correlation.

When r lies between 0.5 to 0.6999, there is moderate degree of correlation.

When r is less than 0.5, there is a low degree of correlation.

Probable Error

If r < 6 P.E, then the value of 'r' is not significant.

If r > 6 P.E, then the value of 'r' is definitely significant.

If the other situations happen, nothing can be concluded with certainty.

(i) Co-Efficient of Correlation Between Deposit And Loan & Advances

It is already mentioned that investment is dependent upon saving i.e. deposit. Longer the duration of deposit, higher the banker's ability to acquire long term asset. In the other words banker can't invest more. On long term assets if the duration of deposit is short. In this sense it can be said that investment is the function of deposit.

Theoretically it is assumed that long-term asset yield higher return. It means longer the duration of deposit, higher would be the profitability of the bank. But investment may no be the function of deposit only. Sometimes investment is made from the funds raised from other sources. In such situation investment is not dependent upon deposit only. Co-efficient of correlation between deposit and loan ad advances measures the degree of relationship between these two variables. In this analysis deposits is independent variable (y) and loan and advances is dependent variable (x).

Table 4.21

Correlation between Total Deposits and Loan and Advances

Evaluation Criterions				
Bank	**r**	**r^2**	**P.E.**	**6 P.E.r**
SCBNL	0.83	0.6889	0.0938	0.5628

Sources: Appendix 2(i, iv, vii)

From the above table it can be seen SCBNL has high degree of positive correlation between deposit and loan & advances., However by application of coefficient of determination (r^2) it indicates that SCBNL has 68.89% of the variation in the dependent variable i.e. loan and advances has been explained by the independent variable i.e. deposits. Moreover considering the probable error, in case of SCBNL, (r) is greater then 6 P.E is can be said that the value of (r) is significant i.e., there is significant relationship between total deposit and loan & advances.

(ii) Co-Efficient Of Correlation Between Deposit and Total Investment

Co-efficient of correlation (r) between deposit and investment measures the degree of relationships between these two variables. Here, deposit is independent variable (x) and total investment is dependent variable (x). The purpose of computing co-efficient of correlation between deposit and total investment is to find out whether deposit is significantly used as investment or not.

The table 4.24 shows the value of r, r^2, P.E and 6P.E between deposit and total investment of SCBNL for the study period of 2002/03 to 2006/07.

Table 4.22

Correlation between Deposit and Total Investment

Evaluation Criterions				
Bank	**r**	**r^2**	**P.E.**	**6 P.E.**
SCBNL	0.98	0.9604	0.0119	0.0714

Sources: Appendix 2(ii, v, viii)

From the above table 4.22, we find that SCBNL have high degree of correlation between deposit and total investment. However, by the application of coefficient of determination i.e. r^2 it indicates SCBNL to be 96.04% of the variation in the dependent variable i.e. total investment has been explained by the independent variables i.e. deposit more over considering the probable error since the value of r i.e. 0.98 of SCBNL is more than 6 P.E. So we can say that there is significant relationship between total deposit and total investment of SCBNL.

(iii) Coefficient of Correlation between Outside Assets and Net Profit

Coefficient of correlation 'r' between outside assets and net profit measures the degree of relationship between these two variables. Here, outside assets are independent variable (x) and net profit is dependent variable (y). The purpose of computing co-efficient of correlation between outside assets and net profit is to find out whether the net profit is significantly correlated with respective total assets or not.

Table 4.23

Co-efficient of Correlation between Outside Assets and Net Profit

Evaluation Criterions				
Bank	**r**	**r^2**	**P.E.**	**6 P.E.**
SCBNL	0.83	0.6889	0.0938	0.5628

Sources: Appendix 2(iii, vi, ix)

From the above listed table it has been found that the co-efficient of correlation between outside assets and net profit in case of SCBNL is found to be 0.83, which indicates high degree of correlation between these two variables. On the other hand, considering the value of co-efficient of determination r^2 i.e. it indicates SCBNL to be 68.89% of the variation in the dependent variable i.e. net profit has been explained by the independent variables i.e. outside assets moreover, considering the probable error since the value of r i.e. 0.83 of SCBNL is more than 6 P.E. So we can say that there is significant relationship between net profit and total outside assets of SCBNL.

4.2.2. Trend Analysis and Projection for Next Five Years

Under this topic, analysis trend of deposit collection, its utilization and net profit of NABIL and SCBNL are studied. To utilize deposits a commercial bank may grant loan and advances and invest government securities and share & debentures of other companies. Under this topic an attempt is made to analyze trend of deposit, Investment and income of SCBNL also forecast their trend for next five years. The projections are based on the following assumptions:

The main assumption is that other things will remain unchanged.

The forecast will be true only when the limitation of least square method is carries out.

The bank will run in present position.

The economy will remain in the present stage.

Nepal Rastra Bank will not change its guidelines to commercial bank.

(i) Trend Analysis of Total Deposit

Under this topic and effort has been made to calculate the trend values of deposit SCBNL for 5 years from 2002/03 to 2006/07 and forecast for next 5 years till 2012.

Table 4.24

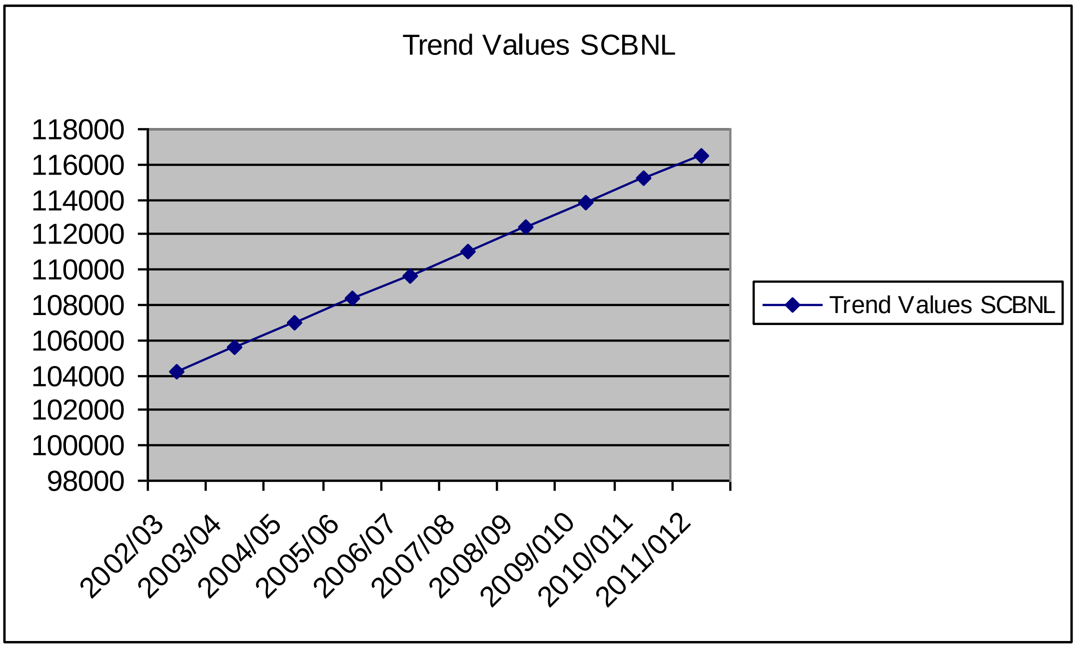
Trend Value of Total Deposit (Rs. in million)

Year	Trend Values SCBNL
2002/03	104223.75
2003/04	105591.99
2004/05	106960.23
2005/06	108328.47
2006/07	109696.71
2007/08	111064.95
2008/09	112433.19
2009/010	113801.43
2010/011	115169.67
2011/012	116537.91

Sources: Appendix 3

Figure 4.5

Trend Value of Total Deposit



The above table shows that the deposit of SCBNL is in the increasing trend. If other thing remains the same, the total deposit of SCBNL will be 116537.91 million in the FY 2011/012.

(ii) Trend Analysis of Investment

Under this topic, the trend values of total investment for five years from 2002/03 to 2006/07 have been calculated ad forecasted for next five years from 2007/08 to 2011/012.

The following table 4.25 shows the trend values of total investment for trend values of total investment for ten years from 2007/08 to 2011/012 of SCBNL.

Table 4.25

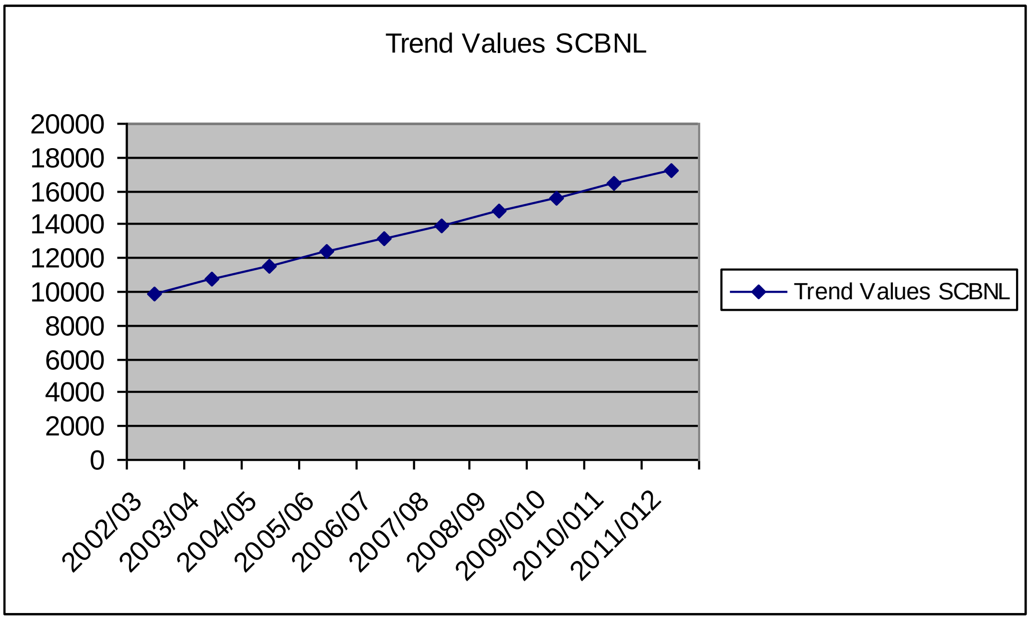
Trend Value of Total Investment (Rs in million)

Year	**Trend Values SCBNL**
2002/03	9903.71
2003/04	10719.84
2004/05	11535.97
2005/06	12352.10
2006/07	13168.23
2007/08	13984.36
2008/09	14800.49
2009/010	15616.62
2010/011	16432.75
2011/012	17248.88

Sources: Appendix 3(ii,iv, viii)

Figure 4.6

Trend Value of Total Investment



The above table shows the total investment of SCBNL has the increasing trend value. Other things remaining the same the total investment of SCBNL. Similarly, the deposit of SCBNL will be 17248.88 million.

(iii) Trend Analysis of Net Profit

Under this topic, the trend values of net profit for five years from mid July 2002/03 to 2006/07 have been calculated and forecasted from next five years from mid July 2006/07 to 2011/012.

Table 4.26

Trend Value of Net Profit (Rs in million)

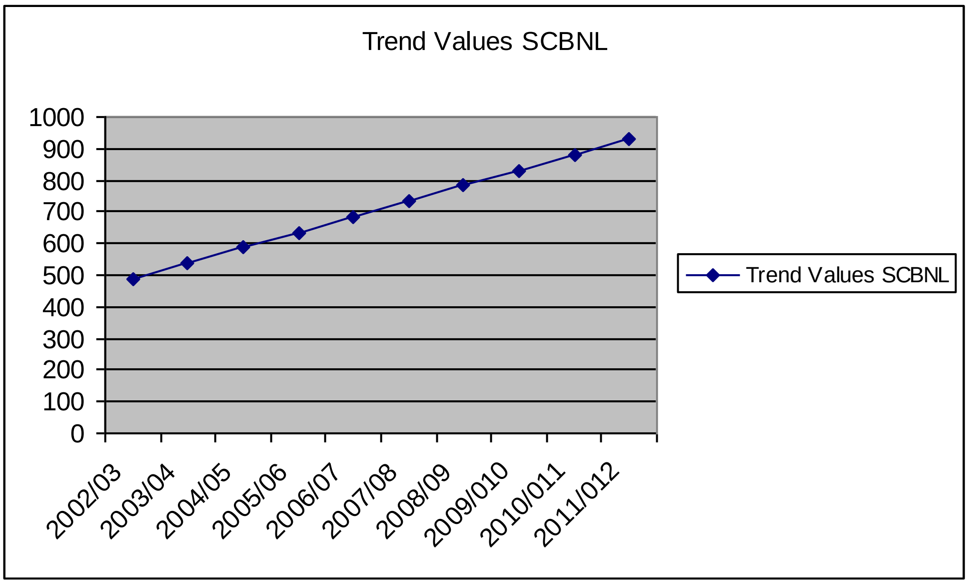
Year	Trend Values SCBNL
2002/03	488.79
2003/04	537.83
2004/05	586.87
2005/06	635.91

2006/07	684.95
2007/08	733.99
2008/09	783.03
2009/010	832.07
2010/011	881.11
2011/012	930.15

Sources: Appendix 3(iii,vi, ix)

Figure 4.7

Trend Value of Net Profit



The above table shows that the net profit of SCBNL is in increasing trend value. Other things remaining the same, the net profit of SCBNL will be 930.15 million in mid 2012 respectively.

4.3 Major Findings of the Study

The main findings of the study are derived on the analysis of financial data of SCBNL is given below.

Liquidity Ratio

The liquidity position of NABIL and SCBNL reveals that:

From the analysis of the current ratio, current liabilities of SCBNL have exceeds current assets in average in the study period from 2002/03to 2006/07 with an average ratio of 0.978 during the study period. The ratios show the fluctuating trend during the period. The coefficient of variation (C.V.) between the ratio for study period is 2.86%, which shows that current ratio during the study period aren't so consistent. In general, the analysis of the bank indicates that it was able to meet its short-term obligation and had a satisfactory liquidity position.

The cash and bank balance to current assets ratio of SCBNL has fluctuating trend. trend. Similarly, the mean of the ratio for the study period is 7.91% and C.V. is 25.8%. Based on the C.V., we can conclude that the ratio is less consistent and more variable. The bank can meet its daily requirements to make the payments on customer highest deposits withdrawals.

.

The cash and bank balance to total deposit ratio of SCBNL is in fluctuating trends. The mean ratio of the study period is 7.42% with standard deviation of 1.73% and coefficient of variation of 23.3% which shows that the ratio is not consistent. According to NRB guidelines, there should be minimum balance of 6% of total deposit liability. The above analysis of cash and bank balance to total deposits shows that SCBNL is successful in maintaining this balance.

The investment on government securities to current assets ratio of SCBNL has fluctuating trend with the mean ratio of the bank is 36.97% and C.V. between them is 8.75% On the basis of the C.V. , it can be concluded that the ratios are variable and less consistent. Investment on government securities is the secondary defense mechanism for commercial banks. It shows the proportion of additional soured of liquidity in addition to cash and bank balance in total current assets.

The loans and advances to current assets ratio of SCBNL is in fluctuating trend. The mean ratio of the bank is 39.33% and C.V. is 16.74%. Since, the bank is in better position to mobilize its fund as loans and advances with respect to current assets.

Assets Management Ratio (Activity Ratio)

The assets management ratio of SCBNL reveals that.

The loans and advances to total deposit ratio is in increasing trend. The mean of the ratio is 36.86% with the standard deviation of 5.47and coefficient of variation is 14.85%. Loans and advances is the proportion of the bank investment into most risky assets. High level of risk isn't desirable for commercial banks as any default can create risk. But higher ratio shows that the bank is in better position to mobilize its total deposits as loan and advances.

The total assets to total deposit ratios is in fluctuating trend during the study period. The mean ratio is 53.83% with the standard deviation of 1.94. The C.V. between them is 3.6%, which shows that the ratios are less consistent and more variable. The figures show that the bank has mobilized higher amount of deposits insecurities.

The loans and advances to total working fund ratio is in fluctuating and increasing trends. The mean ratio is 32.59%and the C.V. between them 15.44%. This shows that the loan and the advances comprise 32.59% in average of total assets of the bank. The study shows that a little more than one –fourth of the assets comprises loan and advances i.e. risky assets. High ratio means high risk and eventually higher return. Therefore, the bank has taken minimum risk towards the mobilization of its funds to risky assets.

Investment on government securities to total working fund ratio is in fluctuating trend during the study period. The mean ratio is found to be 31.28% with 11.8%C.V. between them, which indicates that the ratios are variable and not consistent during the study period. Investments on government securities are the risk free investment for the commercial banks. It shows the proportion of the risk free asset is the total assets of the bank. This ratio shows that the bank has mobilized a considerable amount of fund on government securities, which is less productive and risk free sector.

Investments on shares and debentures to total working fund ratio is in increasing trend. The average of the ratio is 0.076% with 62.13% C.V. between them, which indicates that the ratio is not so consistent over the study period. So, the bank has invested very small percentage of total working fund into shares and debentures of other companies.

Profitability Ratio

The profitability ratio of SCBNL reveal that:

Return on total working fund on SCBNL is in fluctuating trend with the mean ratio of 2.42 and CV 4.18. Hence the ratio is not consistent.

Return on loans and advances ratio is in fluctuating trend. The average for the reviewed period is 7.58 with the CV of 13.77. Thus the CV shows the ratio is not consistent but volatile.

The interest income to total working fund ratio is in fluctuating trend during the study period. The mean ratio is 7.58% and C.V. is 13.77%. However, the C.V. is less which means that the ratios are less variables and more consistent.

The total interest income to total working fund ratio is in fluctuating trend in the study period. The mean ratio is found to be 4.72% with 4.45% C.V. between them, which indicates that the ratios are variable and less consistent.

The total interest paid to total working fund ratio are in fluctuating trends in the study period. The mean ratio is 1.24 and the C.V. is 9.02% which is very high. Thus, the ratios are less consistent and more variable. Hence, the bank has paid less interest on its total working fund as a whole.

Return on Equity of SCBNL is in fluctuating trend with the average ratio of 35.42% and CV 5.86%. the ratios are not consistent and thus volatile.

Growth Ratios

From the analysis of growth ratios of SCBNL it reveals that:

From the analysis of the growth ratios of total deposit, total loans and advances, total investment and net profit of SCBNL during the study period. It shows that the total deposits of the bank is in increasing trend with the net growth rate of 7.06%. The loans and advances of the bank are also in increasing trend with the net growth rate 16.53%. The total investment of the bank is also in increasing trend, the net growth rate is 7.32%. At the end the net profit of the bank is in increasing trend and its net growth rate is 8.08%.

Co-efficient of Correlation Analysis

Co-efficient of correlation analysis between different variables of SCBNL, it reveals that:

The coefficient of correlation between deposits and loans & advances is 0.83, which shows a positive relationship between these two variables. Similarly, when we consider the value of coefficient of determination (r2), which is 0.6889 it means that, 68.69% of the variation in the dependent variable (loans and advances) has been explained by independent variable (deposit). Since r>6P.Er. r is positive and more than 6P.Er., it can be said that the relationship is significant between deposits and loans & advances.

The coefficient of correlation between deposits and investment is 0.98, which shows a positive relationship between these two variables. Similarly, when we consider the value of coefficient of determination (r2) which is 0.9604, means that 96.04% of variation in the dependent variables (deposits). Since, r>6P.Er. and positive, it can infer that there is a strong positive correlation between deposits and total investment. Thus, this indicates that the bank is successful in maximizing the investments of its deposits.

The correlation between total outsider assets and total net profit of the bank is 0.83, which shows a positive relationship between these two variables. The value of coefficient of determination (r2) is 0.6889 that means 68.89% of the variation in the dependent variables (total net profit) has been explained by the independent variable (total investment). Since r>6P.Er. it can be inferred that there is strong correlation between total investment and total net profit. Thus, this indicates that the increase or decrease in total investment affects the total net profit of the bank.

Trend Analysis and Projection For Next Five Years

The trend analysis of total deposit loan and advances, total investment and net profit and projection for next five years of SCBNL reveals that:

The trend analysis of total deposit of the bank is in increasing trend. Other things remaining the same, total deposit of SCBNL will be Rs. 116537.91 million in 2011/12, which is the highest under the study period.

The trend values of total investment of SCBNL are in increasing trend. Other things remaining same, total investment of the bank will be Rs. 17248.88 million in 2011/12, which is the highest under the study.

The net profit of SCBNL is in fluctuating trend. Other things remaining same, the net profit of SCBNL will be Rs. 930.15 million which is the highest under the study period.

CHAPTER - 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is an accomplished specific and indicative enclose which contains summary and conclusion of finding and recommendations. Brief introduction to all chapters of the study and genuine information of the present situation under the topic of the study is defined on summary. Conclusions are analysis of applicable data by using various financial and statistical tools, which presents strengths, weakness, opportunities and threats of the CBs. And suggestions are obtainable in recommendation, which is arranged on the based from finding and conclusions.

5.1 Summary

The development of any country depends upon its economic development. Economic development demands transformation of savings or invertible resources into the actual investment formation is the prerequisite in setting the overall pace of the development of a country. It is the financial institutions that transfer funds from surplus spending units to deficit units.

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese content, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. nowadays there are 24 CBs operating in Nepal financial market which is in increasing due to the country moved towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these CBs should take initiative action in search of the new opportunities. So that, they can easily survive in this competitive banking business world & earn profit. A bank manager its investment has a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals in the process of channeling the available resources in the needed sector. It plays the role of agent between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institution it is possible that the saving will not be safely and profitable utilized within the economy. It will be diverted aboard into unproductive sectors.

Development of trade, industry and business is the main ground of banks to conduct its activities and fulfill its profit making objectives. The sound investment policy helps all the banks to make profitable investment and which in turns also helps to develop the economic condition of the nation. Investment policy of commercial banks is very risky one. It is the most important factor from the view point of shareholders and bank management. For this, commercial banks have to pay due consideration while formulating investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loans and investment.

Commercial banks are not able to utilize its deposits properly i.e. providing loan and advances or lending for a profitable project, the reason behind it is lack of sound investment policy, increasing trend of this type of situation certainly lead closure of the banking institutions.
Hence, the sufficient return is not earned due to the lack of stable, strong and appropriate investment policy. They have not been able to utilize their funds

more efficiently and productively. Though the directions and guidance are being provided by the Nepal Rastra Bank but the long term and published policy about their operation does not sound good in the joint venture banks. Therefore, the banks investment policy must be such that it is sound and prudent in order to protect public funds.

The main focus of the study is to study investment practices of commercial bank i.e. Standard Chartered Bank Nepal Limited and to suggest for its improvement in the investment policy. The study has been constrained by various common limitations.

The study is based on secondary data from the fiscal year 2002/03 to 2006/07. The data are collected from annual reports, financial statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the bank have also been made.

For the fulfillments of the objectives of the study many analyses have been done. Both financial as well as statistical tools have been used to analyze and interpret the facts and information. Under financial tools, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, profitability ratio, risk ratio, and growth ratio have been studied and interpreted. Under statistical analysis, some relevant statistical tools, i.e. correlation co-efficient, trend analysis and hypothesis test have been studied and tested. This analysis gives clear picture of the performance of the bank with regard to its investment practices. Financial & statistical tools are used to reckoning and secondary data were compiled, processed, tabulated and graphed for better presentation. From which various finding have shown in above chapter from that finding conclusion have been drawn which are presented as below.

5.2 Conclusion

The liquidity position of SCBNL is quite satisfactory. SCBNL has maintained little smaller current assets ratio than standard but it has lower mean ratio of cash and bank balance to total deposit and cash and bank balance to current assets ratio. SCBNL has minimum deposit collection. It has made average investment on loan & advances and it has maintained low investment policy on government securities.

From the analysis of assets management ratio it can be concluded that SCBNL has successfully maintained and managed its assets towards different income generating activities. The ratio of loan and advances to total deposit is good but Investment on government securities to total working fund is in moderate position. The mean ratio of Investment on share and debenture to total working fund of SCBNL is less consistent and heterogeneous.

In profitability ratio, the mean of return on total working fund and total interest earned to total working fund of SCBNL is atisfactory. The mean ratio of total interest earned to total outside Assets return on loan and advances and total interest paid to total working fund of SCBNL is good..

There is high degree of significant relationship between deposit and loan and advances, deposit and total investment and outside assets and net profit of SCBNL.

Total deposit, total investment and net profit of SCBNL is in increasing trend. Other thing remaining the same SCBNL will hold good position in 2011/12.

5.3 Recommendations

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment policy.

Current ratio of three sample banks are not sufficient to achieve standard ratio i.e. 2:1, so it is recommended to both banks to maintain required current ratio. They need to maintain the present mean current ratio for the proper management of their liquidity position.

The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply as demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situation.

To get success is competitive banking environment, depositors money must be utilized as loan and advances. Negligence in administering this assets could be the main cause of liquidity crisis in the bank and one of the main reasons of a bank failure. SCBNL have not properly used their existing fund as loan and advances to over come this situation, SCBNL are strongly recommended to follow liberal lending policy.

As bank of private sector commercial banks cannot keep this eyes closed from the profit motive. They should be careful is increasing profit is a real sense to maintain the confidence of shareholders, depositors and its all customers.

Out of working fund, SCBNL has invested its more funds. Though, the percentage of invested by is very nominal. So, it is recommended that bank to invest its more funds in different types of companies' indifferent areas.

In terms of recovery of loan SCBNL is in satisfactory position. The loan loss ratio is comparatively high that makes negative impact on profit. It may be facing a lot of problems on recovering loans. It has large no-performing asset as loan unrecovered. Therefore it is recommended to apply recovery act that would help to realize overdue loan in time.

Most of the joint venture banks have focused their banking services especially to big clients such as multinational companies, large-scale industries, manufactures and exporters of garments and carpets. The minimum level bank balance and the amount needed to open an account in there banks are very high amount. So, small depositors are very far from enjoying the banking facilities provided by such joint venture banks. So, all three banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investors' funds and to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme etc.

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customers. For this purpose, the banks should develop an "Innovative approach to Bank Marketing" and formulate new strategies of serving customers in a more convenient and satisfactory way.

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ANNEXURE – 1

i. Current Ratio Times

SCBNL

Fiscal year	2002/03	2003/04	2004/05	2005/06	2006/07
Current Assets	17084409	20093715	19322679	21472350	22025802
Current Liabilities	17594654	20740829	18895638	21888227	23283089
Ratios	**0.971**	**0.9688**	**1.0226**	**0.981**	**0.946**

ii. Cash and Bank balance to Total Deposit Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1512304	2023164	1111117	1276241	2021021
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	8.06	9.56	5.75	5.53	8.21

iii. Cash and Bank Balance to Current Assets Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1512304	2023164	1111117	1276241	2021021
Current Assets	17084409	20093715	19322679	21472350	22025802
Ratio	8.85	10.07	5.529	5.94	9.18

iv. Investment on Government Securities to Current Assets Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Got. Securities	6581348	7948217	7203066	8635875	7107937
Current Assets	1708440	20093715	19322679	21472350	22025802
Ratio	38.52	39.56	37.28	40.22	32.27

v. Loan and Advances to Current Assets Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Current Assets	17084409	20093715	1932679	21472350	22025802

Ratio	33.34	31.90	42.14	41.61	47.68

vi. Loan and Advances to Total Deposit Ratio (%)

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Current Assets	18755635	21161442	19335095	23061032	24647021
Ratio	30.36	30.30	42.12	38.75	42.61

SCBNL

vii. Total Investment to Total Deposit Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Investment	10216199	11360328	9702553	12847536	13553233
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	54.47	53.68	50.18	55.71	55.10

viii. Loan and Advances to Total Working Fund Ratio (Rs. in 000)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	27.24	21.11	37.19	34.67	36.73

ix. Investment on Government securities to Total Working Fund Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Govt. Securities	6581348	7948218	7203066	8644855	7107937
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	31.47	33.62	32.90	33.54	24.85

x. Investment on Share and Debenture to Total Working Fund Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment on S& D	11195	11195	13348	15348	44943
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	0.05	0.05	0.06	0.06	0.06

xi. Return Total Working Fund Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	506932	537800	539204	658756	691668
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	2.424	2.27	2.46	2.55	2.42

xii. Total Interest Earned to Total Outside Assets Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	1001359	1042175	1058677	1189603	1411942
Total Outside Assets	6722023	17770570	17845761	21782954	24055870
Ratio	14.90	5.86	5.93	5.46	5.87

xiii. Return on Loan and Advances (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	506932	537800	539204	658756	691668
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Ratio	8.9	8.41	6.62	7.37	6.6

xiv. Total Interest Earned to Total working fund Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	1001359	1042175	1058677	1189603	1411982
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	4.81	4.41	4.83	4.61	4.94

xv. Total Interest Paid to Total Working Fund Ratio (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Paid	255154	275809	254127	303198	413055
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	1.22	1.2	1.16	1.20	1.44

xvi. Return on Equity Ratio (ROE) (%)

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	506932	537800	539204	658756	691668
Equity Capital	13689	1495739	1582415	1754139	2116353
Ratio	37.03	35.96	33.89	37.55	32.68

xvii. Sample Calculation of Growth Rate of Total Deposit of SCBNL

Growth rate is calculated from

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

D_n = Total deposit of nth year.

D_o = Total deposit of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07}$ = 24647

$D_{2002/03}$ = 18756

$N=5$

$D_{2006/07} = D_{2002/03} (1+g)^{n-1}$

or, $24647 = 18756(1+g)^{5-1}$

or, $g= (1.314)^{1/4} = 7.06\%$

Growth rate of other variables are calculated and fed in the corresponding tables according to the above formula.

ANNEXURE - 2

i. Calculation of Correlation between Total Deposit and Loan & Advances of SCBNL

(Rs. in Million)

Year	**Total Deposit (X)**	**X^2**	**Loan & Advances (Y)**	**Y^2**	**XY**
00/01	18755.6	351774031.81	5695.82	32442365.47	106828749.42
01/02	21161.4	447806542.87	6410.24	41091176.86	135649909.15
02/03	19335.1	373846092.01	8143.21	66311869.10	157449779.67
03/04	23061	531811104.66	8935.42	79841730.58	206059988.68
04/05	24647	607475594.88	10502.6	110305446.97	258858778.13
N =5	**106960**	**2312713366.23**	**39687.33**	**329992588.98**	**864847205.06**

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

$$= \frac{5\times 864847205.06 - 106960\times 39687.33}{\sqrt{5\times 2312713366.23 - (106960)^2}\times\sqrt{5\times 329992588.98 - (39687.33)^2}}$$

$$= \frac{4324236025.30 - 4244956816.80}{11096.18\times 8653.25} = \frac{79279208.50}{96018019.59} = 0.83$$

$$r^2 = 0.6889$$

Calculation of Probable Error (P.E.)

$$\text{P.E.} = 0.6745\times\frac{\left(1-r^2\right)}{\sqrt{N}}$$

$$= 0.6745\times\frac{(1-0.6889)}{\sqrt{5}} = 0.6745\times 0.1391 = 0.0938$$

$$6\text{P.E.} = 6\times 0.0938 = 0.5628$$

ii. Calculation of Correlation Between Total Deposit and Total Investment of SCBNL

(Rs. in Million)

Year	**Total Deposit (X)**	**X^2**	**Total Investment (Y)**	**Y^2**	**XY**
00/01	18755.64	351774031.81	10216.20	104370742.44	191611369.37
01/02	21161.44	447806542.87	11360.33	129057097.71	240400941.68
02/03	19335.10	373846092.01	9702.55	94139476.50	187599774.51
03/04	23061.03	531811104.66	12847.54	165059284.05	296277505.37
04/05	24647.02	607475594.88	13553.23	183690043.43	334046730.87
N =5	**106960.23**	**2312713366.23**	**57679.85**	**676316644.14**	**1249936321.79**

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

$$= \frac{5\times 1249936321.79 - 106960.23\times 57579.85}{\sqrt{5\times 2312713366.23 - (106960.23)^2}\times\sqrt{5\times 676316644.14 - (57579.85)^2}}$$

$$= \frac{6249681608.95 - 6169450022.37}{11096.18\times 7390.41} = \frac{80231586.58}{82005319.63} = 0.98$$

$r^2 = 0.9604$

Calculation of Probable Error (P.E.)

$$\text{P.E.} = 0.6745\times\frac{\left(1-r^2\right)}{\sqrt{N}}$$

$$= 0.6745\times\frac{(1-0.9604)}{\sqrt{5}} = 0.6745\times 0.0177 = 0.0119$$

$6\text{P.E.} = 6\times 0.0119 = 0.0714$

iii. Calculation of Correlation between Outside Assets and Net Profit of SCBNL

(Rs. in Million)

Year	Outside Assets (X)	X^2	Net Profit (Y)	Y^2	XY
00/01	6722.02	45185552.88	506.93	256978.02	3407593.60
01/02	17770.57	315793158.12	537.80	289228.84	9557012.55
02/03	17845.76	318471149.98	539.20	290736.64	9622433.79
03/04	21782.95	474496910.70	658.76	433964.74	14349736.14
04/05	24055.87	578684881.46	691.67	478407.39	16638723.60
N =5	**88177.17**	**1732631653.14**	**2934.36**	**1749315.63**	**53575499.68**

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

$$= \frac{5\times 53575499.68 \text{ - } 88177.17\times 2934.36}{\sqrt{5\times 1732631653.14 \text{ - } \left(88177.17\right)^2}\times\sqrt{5\times 1749315.63 - \left(2934.36\right)^2}}$$

$$= \frac{267877498.40 \text{ - } 258743560.56}{29798.41\times 368.93} = \frac{9133937.84}{10993527.4} = 0.83$$

$r^2 = 0.6889$

Calculation of Probable Error (P.E.)

$$\text{P.E.} = 0.6745\times\frac{\left(1\text{- } r^2\right)}{\sqrt{N}}$$

$$= 0.6745\times\frac{\left(1\text{- } 0.6889\right)}{\sqrt{5}} = 0.6745\times 0.1391 = 0.0938$$

$6\text{P.E.} = 6\times 0.0938 = 0.5628$

ANNEXURE – 3

i. Trend Value of Total Deposit of SCBNL

(Rs. In Million)

Fiscal Year (t)	Total Deposit (y)	x = (t-2005)	X^2	xy
2002/03	18755.64	-2	4	-37511.28
2003/04	21161.44	-1	1	-21161.44
2004/05	19335.10	0	0	0
2005/06	23061.03	1	1	23061.03
2006/07	24647.02	2	4	49294.04
N = 5	**106960.23**	**0**	**10**	**13682.35**

$$a = \frac{\sum y}{N} = \frac{106960.23}{5} = 21392.05$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{13682.35}{10} = 1368.24$$

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$Y_c = 106960.23 + 1368.24x$

Year	x = (t-2003)	Trend Value $Y_c = 106960.23 + 1368.24x$
2002/03	-2	104223.75
2003/04	-1	105591.99
2004/05	0	106960.23
2005/06	1	108328.47
2006/07	2	109696.71
2007/08	3	111064.95
2008/09	4	112433.19
2009/10	5	113801.43
2010/11	6	115169.67
2011/12	7	116537.91

ii. Trend Value of Total Investment of SCBNL

(Rs. In Million)

Fiscal Year (t)	Total Investment (y)	x = (t-2005)	X^2	xy
2002/03	10216.20	-2	4	-20432.4
2003/04	11360.33	-1	1	-11360.33
2004/05	9702.55	0	0	0
2005/06	12847.54	1	1	12847.54
2006/07	13553.23	2	4	27106.46
N = 5	**57679.85**	**0**	**10**	**8161.27**

$$a = \frac{\sum y}{N} = \frac{57679.85}{5} = 11535.97$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{8161.27}{10} = 816.13$$

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$Y_c = 11535.97 + 816.13x$

Year	x = (t-2003)	Trend Value $Y_c = 11535.97 + 816.13x$
2002/03	-2	9903.71
2003/04	-1	10719.84
2004/05	0	11535.97
2005/06	1	12352.10
2006/07	2	13168.23
2007/08	3	13984.36
2008/09	4	14800.49
2009/10	5	15616.62
2010/11	6	16432.75
2011/12	7	17248.88

iii. Trend Value of Net Profit of SCBNL

(Rs. In Million)

Fiscal Year (t)	Net Profit (y)	x = (t-2005)	X^2	xy
2002/03	506.93	-2	4	-1013.86
2003/04	537.80	-1	1	-537.8
2004/05	539.20	0	0	0

2005/06	658.76	1	1	658.76
2006/07	691.67	2	4	1383.34
N = 5	**2934.36**	**0**	**10**	**490.44**

$$a = \frac{\sum y}{N} = \frac{2934.36}{5} = 586.87$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{490.44}{10} = 49.04$$

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$Y_c = 586.87 + 49.04x$

Year	**x = (t-2003)**	**Trend Value** $Y_c = 586.87 + 49.04x$
2002/03	-2	488.79
2003/04	-1	537.83
2004/05	0	586.87
2005/06	1	635.91
2006/07	2	684.95
2007/08	3	733.99
2008/09	4	783.03
2009/10	5	832.07
2010/11	6	881.11
2011/12	7	930.15