CHAPTER-I

INTRODUCTION

1.1 Background

Nepalese Economy is predominantly a subsistent agricultural economy, which contributes about 40 percent of GDP and provides employment to more than 80 percent of the economically active population. Almost half-Nepalese population 2508 million live below the poverty line as is ranked as one of the words poorest. However, Nepal is online developing country in the world and slowly has also increasing the trend of economic condition. The development of a country is always measured by its economic indices. Therefore, every country has given emphasis on uplift of its economy. Now a day, the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in economic development of the country. Every well-organized financial institution including financial intermediaries play vital role in development and advancement of the financial sector of the country. They collect scattered financial resources from the mass and invest them among those, which are social activities of the country. This will provide fuel to the development process. In fact, the unorganized financial institutions are indispensable part of the development process. The unorganized financial system leads the country nowhere. Therefore, the central bank (Nepal Rasta Bank) continues to play major role in development and advancement of the financial sector of the county. So, sound-banking system is the crucial means to accelerate the development of a country by strengthening the economic condition in today globalize economy of the twenty-first century.

Bank is a financial institution, which deals with money by acceptation various types of deposits, disbursing loan an rendering various types of financial services. As financial institution, Commercial bank is one of the major media in

the framework of every economic because they collect saving as a deposit and invest for industry. Thus, they contribute to the economic growth of the nation a whole. The mobilization of domestic resource and the investment for production use to various sectors are important factors. Commercial banks formulate sound investment policy, which eventually contributes to the economic growth of the county. The banking sectors need o play an important role to boost up the economy by adopting the growth oriented investment policy and building up the financial structure for the future economic development. Therefore, integrated and speedy development of any country is only possible when competitive, reliable and sound banking services are reached and carried to every corner of the country. In current situation, banking sector is to manage the excess liquidity outstanding to invest the money in productive as well as new sector, to manage the accumulated non-performing loan. Commercial banks collect deposits from individuals, invest them as loan, advance to the borrowers, competitive market, and earn profit.

1.2 Historical Development of Banking

The origin of the word “Bank” is linked to: Latin word “bancus” meaning a bench Italian word “banca” meaning a bench, French word “banque” meaning a bench Since there is no unanimity, it is difficult to say exactly from which of here words, the term “bank” has been derived from. With the gradual development of bank. Its functions are also increasing. It only dealt with the exchanges of money in its preliminary phase, but later it has started accepting deposits from the public against interest an providing them in the form of loans to the needy persons were the basic functions defined. Today, however, banks wide range of activities.

Modern banking is said to originate in medieval Italy. The Bank of Venice, the first public banking institution was established in Italy in 1157 A.D. Subsequently,” Bank of Barcelona” of Spain, the world’s second bank was

established in 1401 A.D. and “Bank of Geneva” of Switzerland was established in 1407 A.D. “Bank of Amsterdam”, the Netherland was set up in 1699 A.D. was among the very popular commercial banks in the world. The Bank of ‘Hindustan’, regarded as India’s first commercial bank, was established in 1770. As so, in 1694 A.D., “The Bank of England” was established, which changed the process of establishing the banking institutions remarkably. This was a big lank mark in the history of banking development. The idea of commercial banks was rapidly spread to all over the world only after the establishment of this bank.

In course of time, banks are among the most important financial institution in the economy and essential business in thousands of local town an cities. In this context, there is much confusion about exactly what a bank is? Certainly, Banks must be identified by the functions they perform in the economy. However, the word bank is generally used to denote a certain kind of trading in money, which mainly consists the exchanging of money, the lending of money, the depositing of money and the transmitting of money.

Due to the rapid modernization and industrialization of the world, banking institutions have been indispensable for the resource mobilization and all around development of the country as they are important to individuals and institutions such as the public, business, organizations, government and other institutions. It provides resources for economic development that maintains economic confidence of various segments and expands credit to people. The bank accumulates surplus money from the public, who cannot use the money at the time and lends to those who are in need of that to use for productive purposes. It refers to any institution that deals in money. However, today banks are established for specific purpose such as commercial bank, industrial bank, merchant bank, development bank, rural bank and so on. When the bank lends the loan to the customers for earning interest, the bank draw the money from institution or individual or people pay the interest amount by the certain interest

rate. There are different types of bank focus on different types of service to their customers although the basic principle is same i.e. mobilize idle resources from productive sectors to the growth of trade. Industry and commerce. Today's banks in different countries render various different services to the people for strengthening the whole country's economy. As an open policy of the government to allow private and foreign investors to invest in banking under the Commercial Bank Act 2031 B.S., many new banks were established, and money more are coming into existence.

1.3 Statements of the Problem

Commercial banks have huge collection from depositors. Effective utilization of collected fund is only possible through sound investment policy. Most Nepalese commercial banks have not formulated their investment policy in an organized manner. Therefore, the investors are discouraged to invest. In context of Nepal, banking sector is facing many problems such as political, legal. Economical as well as social. The unstable politics is the main cause to hamper for the development of banking sectors. Not only these. There is throat cut competition among mushrooming commercial banks. Most of the Nepalese people are illiterate and they are not aware about banking systems. So the lack of sound knowledge about the financial risk. Business risk and other risk may lead the banks toward the liquidation and bankrupt. Due to the lack of effective human resource and trained labor, it is not easy to run such organization. The problem that still persists for a bank even today is to find a proper and viable project to ensure healthy profit. They have always feared high degree of risk and uncertainty owing to lack of profitable sectors for their investment. Still, some emerging existing commercial banks are tempted to invest, without popper credit analysis and on personal guarantee. Some have even sanctioned loan to customers beyond customer's real requirement. The high liquidity position of banks has resulted in a decrease in investment in Productive sectors. Due to this,

they may have sufficient return and most of joint venture banks may have to collapse due to poor and wrong investment policy.

In the study Standard Chartered Bank Nepal Ltd. (SCBNL) investment policy is analyzed comparing it with another commercial bank i.e. Nabil Bank Ltd. And Investment Bank Ltd.

Therefore, the studies especially surround sand leads with the following aspects of commercial banks.

- What is the liquidity position of the banks?
- What is the assets management condition of the related banks?
- What is the profitability position of the bank?
- What is the risk position in the companies?
- What are the trends of deposits, loans and advances, total investment and net profit?
- What are the relation of deposits with investment, loan and advances?
- What is the effect of investment decision on profitability position of the bank?

1.4 Objectives of the Study

The basic objective of the study is to examine and evaluate the investment policy of NABIL Bank Ltd. And compare the same with the Investment Bank Ltd. and Standard Chartered Bank Nepal Ltd. to achieve these prime objectives. The following objectives are also considered in the study.

- To analyze the investment policy of the sample Banks.
- To evaluate the liquidity position of the sample banks.
- To analyze the empirical relationship between deposit, loans and advances, total investment with other financial variables and compare them between the three banks under study.

- To analyze the trend of deposit utilization towards total investment and loans and advances and its projection for next five years.

1.5 Significant of the Study

Commercial banks in developing countries like Nepal have the greatest responsibility towards the economic development of the country. “In the present-day world in the developed and developing money economies, the vital process of production and consumption are significantly affected by the aggregate money supply consisting of the currency, demand and time deposit with banks"1 In modern times, Since credit or bank money or credit rather than changes in the total supply of the high powered money issued by the reserve held by the bank against their deposit liabilities that account for changes in the aggregate money supply. Gone are the old days when commercial banks were regarded as merely purveyors of money. So the investment policy of joint venture banks should be in accordance with the spirit of the economic enlistment of the people. The scope of this study lies mainly in filling a research gap on the study of investment of policy of joint venture banks of Nepal. This study is basically confined to reviewing the investment policy of joint venture banks in the five years period. This study is expected to provide useful feedback to the policy makers of joint venture and commercial banks of Nepal and also to the government and central bank (NRB) in formulating appropriate plans and policies for the improvement of performance of these banks. This study may also be useful to the person who is interested to do research in banking sector.

1.6 Limitations of the Study

Like every research study, this study also has some limitations via-inadequate coverage of commercial banks, time period taken and other variables. The following factors are the basic limitations.

a) This study concentrates only on those factors they are related with investment.

b) Mostly secondary data have been analyzed. Only a period of five years trend is considered i.e. fiscal year 2005/06 to 2009/10.

c) The truth of the research is based upon the available data from the bank.

d) NABIL Bank Ltd. with Investment Bank Ltd. and Standard Chartered Bank Nepal Ltd. will be taken in order to compare.

e) Only limited financial tools and technique are used for analysis, so this study may be sufficient for depth analysis.

1.7 Organization of the Study

This study includes five chapters namely Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis and Conclusion and Recommendation the first chapter in the introductory chapter, which contains the following topics.

- General background of the study.
- Historical developments of Banking.
- Objectives of the Study
- Significance of the Study
- Limitations of the Study
- Organization of the Study

The second chapter is Review of Literature, which deals with the study of related articles, journals, reports and past thesis writing. This chapter includes three topics.

I. Conceptual framework.

II. Review of journals, articles, reports and
III. Review of previous thesis studies related to Investment decision and policy.

The third chapter concentrates on Research Methodology, techniques that are applied to collect and analyze the data. It consists of the following topics.

I. Introduction
II. Research Design
III. Population and sample
IV. Data Collection Techniques
V. Data Analysis Tools

The fourth chapter is Presentation and Analysis of Data, which consists of financial tools and statistical tools used in the analysis of data. Financial tool mainly consists of ratio analysis, which involves-liquidity ratio, asset management ratio, profitability ratio, risk ratio and growth ratio. Statistical tools used in the analysis of data involve co-relation analysis, trend analysis and test of hypothesis. This chapter also provides major findings of the study.

The fifth chapter, which is also the concluding chapter covers summary, Conclusion and Recommendation and provide some valuable suggestions to the selected banks.

CHAPTER-II

REVIEW OF LIERATURE

This part of the study tries to describe the conceptual framework, concept of commercial bank and joint venture bank. Apart from these, this chapter highlights the literature that and available in the concerned subject to my knowledge, Review of reports related to commercial banks, Review of research works, Review of Books, Review of articles and relevant study on thesis topic an Review of previous thesis work. Actually, this unit of the study tries to describe the conceptual NRB rules regarding funds mobilization of commercial banks. Besides these, this chapter highlights the literature that is available in concerned subject as to my knowledge, research work, relevant study on this topic and review of thesis work, which was performed previously.

2.1 Conceptual Framework

Conceptual reviews of various literatures provided by different authors, research scholars, practitioners etc, have been presented in the following sectors:

2.1.1 Investment

Investment is concerned with the management of an investor's wealth which are the sum of current income and the present value of all future funds to be invested come from assets already owned borrowed money and saving or foregone consumption by forgoing today and investing the saving, inventors expects to enhance their future consumption possibilities i.e. they are invested to increase wealth. Some scholars have given the actual meaning of investment in their words, which are as follows:

Cheney and Moses say, "The investment objective is to increase systematically the individual's wealth, defined as assets minus liabilities. The higher the level

of desired wealth the higher the return must be received. As investor seeking higher return must be willing to take higher level of risk."

J.K. Fancies says, "An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for future uncertain benefits."

James B. Bexely express his views as, "Investment policy stables responsibilities for the investment disposition of the bank assets in terms of allocation funds for investment and loan and establishing responsibility for day to day management of those assets."

Singh Preeti, "Investment is the employment of funds with the aim of achieving additional income or growth in value. The essential quality of an investment is that it involves within for a reward. It involves the commitment of resources which have been saved or put away from current consumption he hopes that some benefits will accrue in the future."

2.1.2 NRB Rules Regarding Fund Mobilization of Commercial Banks.

To mobilize bank's deposit in sectors of the different parts of the nation. To Prevent them from the financial problems; central bank may establish a legal framework by formulating various rules and regulation (Prudential norms). These directives must have direct or indirect impact while making decision to discuss those rules and regulation, which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR loan loss provision, capital adequacy ratio, interest spread, productive sector investment, etc. The main provisions established by NRB in the form of prudential norms in above relevant are briefly discussed here:

A. Directives Relating to single Borrower Credit Limit

With the objective of lowering the risk of over concentration f bank loans to a few big borrowers and also to increase the access of small and middle size borrowers to the bank loans, NRB has directed commercial banks to set an upper limit for single borrower limit. According to the directive, commercial banks may extend credit to single borrower to group or related borrowers in such a way that the amount of Fund based loans and advances is up to 25% of the core Capital and Non Fund based Off-Balance Sheet Facilities like letters of credit, guarantees, acceptances, commitments is up to 50% of its Core Capital Fund.

B. Directives Relating to Loan classification and Loan provisioning

Effective from FY 2059/60 (2002/2003), outstanding loans and advances on the basis of aging of principle amount, loans and advances should be classified into the following four categories:

Pass: Loans and advances whose principle amount are not past due and past due for a period up to 3 months will be include in this category. These are classified and defined as performing loans.

Substandard: All loan and advances that are past due for a period of 3 months to 6 months will be included in this category.

The loan loss provisioning based on the outstanding loans and advances and bills purchases are classified as per the new unified directives 2005 shall be provided as follows:

Classification of Loan Loss Provision

Pass	1 Percent
Substandard	25Percent
Doubtful	50 Percent
Loss	100 Percent

Loan loss provision set aside for performing loan is defined as “General Loan Loss Provision” and Loan Loss Provision set aside for Non-Performance Loan is defined as “Specific Loan Loss Provision.”

C. Directives Relating To Interest Rates

According to Previous directives, the differences between the interest provided and interest charged should be more than 5%. This difference is calculated on the basis of the weighted interest provided and the weighted interest charge. However, according to the directives of circular issued on 16th July 2003, the requirement to maintain average interest spread at 5% has been withdrawn for the time being.

D. Directives Relating to Cash Reserve Ratio Requirements

To ensure adequate liquidity in the commercial banks, to meet the depositors demand for cash at any time to inject the confidence in depositors regarding the safety of their deposited funds, commercial banks are required to have maximum CRR. In this regard, Nepal Rastra Bank has directed commercial banks to deposit minimum 7% of current and saving deposits an 4.5% of fixed deposits in the NRB. The commercial banks are further required to have 3% cash of total deposits in their own bank’s value. Cash Reserve Ratio has been reduced by one percentage point effective beginning of new FY 2067/68.

E. Directives to Raise Minimum Capital Fund

Nepal Rastra Bank has directed all the commercial banks under operation established to operate in national level and having low capital base have been directed to raise their capital fund at minimum level of Rs. 1000 million by the end of the fiscal year 2007/08. The amount under the heading of the Paid-up capital,, general reserve, share premium, non-redeemable preference share an retained earnings would be considered for calculation minimum capital fund. It

has further directed all the commercial banks to increase their paid up capital (not the total capital fund) to Rs 1000 million by 2014 by increasing paid up capital at minimum of 10% annually.

F. Directives Regarding Investments in Shares and Securities by Commercial Banks

Arrangement for implementation of investment policy under approval of the board of directors: Banks should prepare written policy relating to investments in the shares and securities of the other organized institution. Such policies should be implemented only under the approval of the Board of Directors. There should be no restrictions as to investment by the banks in the securities of organized securities issued by Nepal Rastra Bank. Arrangement relating to investment in shares an securities of organized institutions:

Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized institution. The total amount of investment should be restricted to 30% of the paid up capital of the bank. Banks should invest in the shares and securities of organized institutions, which are already listed in the stock exchange or where arrangement exists for listing within one year. Bands should not invest in any shares, securities and hybrid capital instruments issued by any banks and financial institutions licensed by NRB.

2.1.3 Features of a Sound Lending and Investment Policy

The income and profit of a financial institution depends upon to be lending procedure, lending policy and investment of its fund in different securities. A sound lending and investment policy is not only pre-requisite for bank’s profitability but also of utmost significance for the promotion of commercial savings of an under developed and backward country like Nepal.

The factors that banks must consider for sound lending and investment policies are explained as under:

a) Safety and Security

Banks should buy investment rated securities only. It should abstain from investing its fund in those securities, which are subject to relater depreciation and fluctuation for example common stock, since a little difference may result in a great loss. It must not advance its funds to speculative business, which may earn millions in a minute or may priced during boom banks should invest in medium grade and high-grade securities during recession and boom respectively. Banks should buy securities, which are commercially durable, marketable and have high market price. In this regard "MAST" should be followed while investing.

Where,

M=Marketability

A=Ascertain ability

S=Stability

T=Transferability

b) Liquidity

Liquidity is defined as bank's capacity to pay cash in exchange of deposits. People deposit their money in banks because they believe that the bank will repay their money on demand money on demand. In order to retain good credit standing, trust, and confidence of its customers every banks must maintain enough liquidity to meet its various obligations.

c) Profitability

Commercial banks can maximize its volume of wealth through maximization of return on their investments and lending. They must invest their fund in viable

sectors where they can earn maximum profit. Their return depends upon the interest rate, volume of loan, duration of the loan and nature of investment in different securities.

d) Purpose of Loan

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. The first substantive question a banker must examine is how loan proceeds will be used. If the loan purpose conflict with commercial policy, such as loan for some speculative purpose not acceptable to the banker such loans should not be processed. If customers misuse their borrowings, there is risk involved in repayment and the bank will incur heavy bad debts. Detailed information about the plan and scheme of project should be collected and examined before borrowing.

e) Diversification

Investment and credit concentrated on same geographical region, same sector of business and few customers increase the risk. Hence, the policy should fix a cap on all these aspect. As the saying goes “A bank should not put all its eggs in the same basket”, therefore, in order to minimize the risk, a bank should diversify its investment in different securities. This diversification or portfolio investment helps to earn good return and at the same time minimize the risks and uncertainty.

f) Legality

A commercial bank must follow the rules and relations and statuary directives issued by Nepal Rastra Bank, Ministry of Finance and others while issuing securities and mobilizing their funds. In Nepal, NRB restricts financial institution licensed by it to invest in securities of each other.

2.2 Review of Articles /Journals

Under this heading some related articles published in different books, economic journals, World Bank Bulletin, magazines, newspaper has been examined and reviewed.

Shrestha Shiba Raj (2004) in his article "Portfolio Management in commercial Bank, Theory and practice" has emphasized that portfolio management is essential for individual and institutional investors. Though in the case of small investor as they are not left with much of an option it may be limited to small savings, but for large investors, diversification through investment in mutual funds, shares, debentures should be practiced, as any rational investor would seed to derive the maximum return on investment although assuming some risk at the some risk at the same time. A best mix of investment assets fulfilling the under mentioned aspects are preferred by prudent (large) investors. They are:

a) Higher return which is comparable with alternative opportunities available not undermining the risk taking capability of the investor.
b) Adequate liquidity with sufficient safety and profitability of investment.
c) Maximum tax concessions.
d) Certain capital gain and flexibility of investment.
e) Economic, efficient and effective mix of investment etc.

With these in view, the following strategy needs to be adopted:

i. To have a portfolio of different securities and not just holding a single Security.
ii. Don't put all the eggs in the same basket. (For instance, do not invest in a single company or single sector). Diversification of investment should be practiced for adequate safety, liquidity and profitability.
iii. Choose such a portfolio of securities, which ensures maximum return with low degree of risk and uncertainty.

Shrestha has put forward the following approach to be adopted for designing & managing good portfolio.

a) Search investment assets (generally securities), which have scope for better returns, depending upon individual characteristics like age, health, need deposition, liquidity and tax liability etc.
b) To identify variety of securities for investment to reduce volatility of returns and risk.
c) To develop alternative investment strategies for selecting a better portfolio which will ensure a tradeoff between risk and return to attain the primary objective of wealth maximization at lowest risk?
d) To find out the risk of the securities depending upon the attitude of investor towards risk.

Shrestha has also recommended that banks in order to succeed in portfolio management should have skilled manpower, research and analysis team, and proper management information system. He has suggested that the banks having international network can also offer access to global financial markets. He has also stressed that:

i. The survival of every bank depends upon its own financial health and various activities.
ii. In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standard and give their clients the benefits of global strength, local insights and prudent philosophy.
iii. The Nepalese banks having greater network and access to national and international capital market has to go for portfolio management activities for portfolio management activities for the increment of their fee-based income as well as to enrich their fund based income and to contribute to the national economy

Shrestha Bodhi (2000) in his article "Monetary Policy and Deposit Mobilization in Nepal" writes "Mobilization of domestic savings is one of the prime objective of the monetary policy in Nepal and for this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different aspects of the economy.

Shrestha Dr. Sunity (2006) in her article "Lending operation of commercial banks of Nepal and its impact on G.D.P." has presented an objective t make an analysis of contribution of commercial banks lending to the G.D.P of Nepal. She has set hypothesis that there has been positive impact of commercial bank lending to the G.D.P. in research methodology she has considered G.D.P. as the dependent variable and various sectors of lending via Agriculture, Industrial, Commercial service, general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution. The multiple analyses have shown that all the variables except service sector lending have positive impact on D.G.P While concluding, she has accepted the hypothesis i.e., there has been positive impact by the lending of commercial banks in various sectors of economy except service sector economy.

Shrestha Ramesh Lal (2007) in his article "A study on deposits and credits of commercial bank in Nepal" (*Ramesh Lal Shrestha*) concluded that the credit deposit ratio would be 51.30% other thins remaining the same in Nepal, which was the lowest under the period of review. He strongly recommended that the commercial banks should try to give more emphasis on entering new field as far as possible; otherwise, they might not be able to absorb even the total expense.

Sharma Bhaskar (2008) in his article "Banking the future on competition has highlighted that majority of commercial banks are being established and have

operation in urban areas only. They have shown no interest to open branches in rural areas. The branches of NBL and RBB are only running in those sectors. The commercial banks are charging higher interest rate on lending, they are offered maximum tax concession, and theory on not property analyzes the credit system.

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

Pradhan Shekhar Bahadur (2009) in his article "Deposit mobilization its problem and prospects" points out that deposit in the lifeblood of every financial institution. The latest financial/accounting figurers of most bank and financial companies produce a strong feeling that serious review must be made with regards to problem and prospect of deposit sectors. Leaving a few joint venture banks, other organization relies heavily on the business deposit and credit disbursement.

Mr. Pradhan has highlighted the following problems of deposit mobilization in the Nepalese context.

1) Most Nepalese people do not go for institutional saving due to lack of adequate knowledge. They are much used to savings in the form of cash and Ornaments. Their hold-heartedness to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawal system, and availability of deposit facilities and so on.
2) Unavailability of institutional services in rural areas.

3) Due to lesser office hours of banking system, people prefer holding cash in their personal possession.
4) Improper mobilization and improvement of the employment of deposits towards various sectors.

For proper deposit mobilization, he has recommended the following:

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

2.3 Review of Related Thesis

Prior to this, several thesis works has been attempted by previous students regarding various aspects of commercial banks like financial performance, lending policy, investment policy, resource mobilization, capital structure et. Among them, some research those that were found relevant for this study are presented below:

Khadka (2002) in his thesis work entitled "A study on the Investment policy of Nepal Arab Bank Ltd in comparison to other joint venture banks of Nepal" has tried to examine and interpret the investment policies adopted by NIBL and other joint venture banks of Nepal.

The objectives of the research were:

a. To evaluate the liquidity, asset management, efficiency and profitability position.
b. To discuss fund mobilization and investment policy of NIBL with respect to its fee based off-balance sheet transaction in comparison to other JVB's.

c. To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and net profit of other JVB's.
d. To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and outside assets of NIBL comparison to other JVB's.
e. To evaluate the trends of deposit utilization and its projection for next five years of NIBL compared to other JVB's.

His major findings were:

i. The liquidity position of NIBL is comparatively worse than other JVB's. NIBL has utilized more portions of current assets as loan and advances and lesser portions in government securities.
ii. The profitability position of NIBL is comparatively better then that of other JVB's.
iii. There is significant relationship between deposit and loan and advances as well as outside and net profit where as there is no significant and relationship between deposit and total investment in case of other JVB's.
iv. The trend values of loan and advances to total deposit of NIBL and other JVB's are in increasing trend. The trend value of total investment to total deposit of NIBL and other JVB's are in increasing trend.
v. NIBL is seen to be more successful in increasing its sources of fund for deposit mobilization and granting loan and advances and maintain a good investment but it has failed to maintain its high growth rate of profit in comparisons with other JVB'S.

Tuladhar (2002) has conducted a thesis research on "A study of investment Bank of Kathmandu Limited in comparison to other JVB's of Nepal".

The basic objectives of this study were:

a. To study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on balance sheet activities.
b. To evaluate the liquidity, efficiency, assets management and profitability position.
c. To evaluate the growth rations of loan & advances and total investment with respective growth rate of total deposit and net profit.
d. To evaluate the trends of deposit utilization towards total investment and loan advances and its projection for next five years.
e. To perform an empirical study of the customer's views and ideas regarding the existing service and adopted investment policy of the joint venture banks.
f. To providing suggestions and recommendation on the basis of this study.

His major findings were:

i. BOKL has maintained adequate liquidity than other JVB's. It is in a better position to meet current obligation.
ii. BOKL has successfully maintained and managed its assets towards different income generating activities.
iii. The profitability position of BOKL is higher than other JVB's.
iv. BOKL has invested higher portion of total working fund in government securities than other JVB's. BOKL's loans and advance to total deposit ratio is less than other JVB's.
v. BOKL has the largest profit margin in comparison with other JVB's.

Thapa (2003) has conducted a thesis research on "A comparative study on investment policy of Nepal Bangladesh Bank and other JVB's (NIBL Bank Limited and Nepal Grindlays Bank Limited)".

The basic objectives of this study were:

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

The major findings of the study were as follows:

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

vii. The position of NBBL in regard to utilization of fund to earn profit is not better in comparison to NIBL & BOKL.

viii. The cost of fund of NBBL is competitively higher than NIBL & BOKL.

Bohara (2004) has conducted a research entitle "A comparative study on Investment policy of Joint Venture Banks and Finance Companies of Nepal".

The objectives of the study were as follows:

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

The major findings of the study were as follows:

i. Liquidity position of JVB's is comparatively better than that of finance companies. Finance companies have made nominal amount of investment in government securities.
ii. Finance companies have mobilized their deposits smoothly in comparison with JVB's. The average loan and advance to total deposit ratios of finance companies is higher than JVB's.
iii. Profitability position of JVB's except for BOKL is better than that of finance companies, but profitability position of finance companies in terms of return on total assets is better. Interest income in relation to

proportion of total assets and operating income is higher in finance companies in comparison to JVB's.

iv. The growth ratio of deposits, net profit, loan and advances are higher than that of JVB's and are increasing every year, which indicates good performance of the finance companies.

v. The risk ratios of finance companies are less variable than the JVB's . The interest risk ratios of finance companies are higher where as the capital risk ratios of JVB's are comparatively higher than that of finance companies.

vi. JVB's are in a better position in mobilizing deposits as loan and advances, but so far finance companies have been successful in utilizing their sources of funds and their mobilization.

Shrestha (2004) has conducted a research entitled "Investment Analysis of Commercial Banks" (A Comparative Study of Nepal Bank Limited and Nepal State Bank of India Limited)

The objectives of the study were:

a. To analyze percentage of investment made by HBL and NSBIL in total investment made by commercial banks.
b. To analyze investment trend, deposits trend and total income and their projection for next five year of HBL and compare them with that of NSBIL.
c. To identify investment sector of HBL & NSBIL.
d. To evaluate the liquidity, assets management efficiency, profitability and risk position of HBL in comparison to that of NSBIL.
e. To study the relationship between investment and deposits of bank.

The major findings of the study were as follows:

i. Percentage of HBL's investment to total commercial banks investment in extremely higher than NSBIL.

ii. Both HBL & NSBIL have invested mostly on government securities but HBL has invested in NRB bonds also as well as in other productive sectors.
iii. NSBIL is better than HBL from liquidity point of view
iv. HBL has higher profitability position has NSBIL.
v. HBL is exposed to more risk than NSBIL.
vi. HBL has maintained higher growth rate in net profit in comparison to NSBIL.

Shrestha (2009) has conducted a thesis research entitled "Investment portfolio Analysis of JVB's".

a. The specific objectives of the study were:
b. To analyze the risk and return ratios of commercial banks.
c. To evaluate the financial performance of JVB's
d. To provide suggestion package based on the analysis of data.
e. To study existing investment policies taken by NIBL in various sectors.
f. To study portfolio structure of NIBL in investment as compared to other JVB's.
g. Preference given by NIBL for investment between,
   - Loan Investment.
   - Investment in real fixed assets.
   - Investment in financial assets.

The main findings of the study were:

i. BOKL has the highest return on shareholders' fund and total assets. It has also been successful in mobilizing its deposit as investments. NIBL & EBL have invested high amounts of deposits as loan and advances in comparison to BOKL, NIBL, & HBL.

ii. Among the JVB's looking at the investment portfolio, EBL has investment highest amount of funds in government securities, NBB has invested highest amount of funds on shares and debentures and NIBL has invested highest amount of funds in NRB bonds in comparison to other JVB's.

iii. BOKL has the highest EPS and EBL the lowest EPS among the JVB's Commercial banks have huge deposit collection. These deposits need to be properly utilized. Effective utilization of collected fund is possible only through implementation of sound investment policy. NIBL and BOKL are the best examples of JVB's in Nepal that have been able to mobilize the funds in an effective manner and achieved phenomenal growth and profit year after year by formulating and implementing sound investment policy.

Most research studies conducted prior to this study involving comparative analysis the successful bank with sound financial health would excel in various aspects of banking. The possibility of the samples showing result during data analysis was high. The financial and empirical analysis to data revealed higher degree of consistency in case of successful bank and less uniformity in case of emerging bank.

This study comprises of two of the most successful Job's as sample via NIBL and BOKL. This study is also different from previous studies in view of the time its covers. During this period, the country has witnessed political uncertainty, deteriorating security situation that have rendered the economy further sluggish. There has been a restructuring in the banking business. This study gives a new dimension to the research topic in the sense that it has adhered to most of the fresh guidelines and directives issued by NRB to commercial banks, which previous studies lack. This study aims at providing a more realistic picture to various financial aspects of the sample banks. In line with fresh guidelines and NRB directive and practice adopted by banks, some

items of the balance sheet that were previously booked under one heading have now been accounted under a different heading . For instance, leasehold improvements or deferred expenditure that were previously a part of current assets have been accounted for under fixed assets as they are amortized over the period of lease. Similarly, staff loan and advances previously part of Loan Advances and Bills purchase have been biked under other assets, checks presented for clearing have been booked under other assets. Gratuity is expensed of on accrual basis and is now a part of personnel expense. Previously it was practice of banks to include it under current liabilities and appropriate it from profit and loss Account. This study will reveal the strength and weaknesses of the sample bank and serve as a valuable input in decision-making process of the concerned bands and other emerging banks in formulating appropriate investment policy.

2.3 Research Gap

There is a certain gap between the present research and past research. Previous several researches are done in this topic called “Investment portfolio Analysis”. The information of his very research is also based on secondary data as well as primary data, but many effective tools and techniques are used to get the desired result as per the objective of this study. To analyze the facts financial tools as well as statistical tools were used to get the desired objective of the study. Financial tools include ratio analysis and the statistical tools include mean, standard deviation, coefficient of variation, and correlation of coefficient analysis and also include trend analysis. In present context, these are the heart issue in Nepalese commercial banks. The previous researchers could not submit the present fact. This research will deliver the answer to the recent questions and it will also give the latest information about the current practices of concerned commercial banks.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology refers together data and tools employing and using in its interpretation discussion this section under the heading namely Research design, population and sample, nature and sources of data and financial and statistical tools for analysis of data. It includes the various sequential steps to be adopts by a researcher defining problem in solving problems. Hence it is also regarded as the methods, process and steps. It helps t researcher to support the study is realistic term with sound empirical analysis.

In this chapter the various methods are discussed and presented in such a way that can be used for the analysis of collected data. Various four sections are shown, namely research design, population and sample, source and data collection techniques and finally analytical tools are used in study.

3.1 Research Design

Research design is the arrangement of condition for collection and analysis of data in a manner that aims to relevance to the research with economy in procedure.

Research design is the plan, structure and strategy and investigation conceived so as to obtain answer to research question and control variance.*(Wolf and Pant; 1975:)*

This study depends on the secondary data. It includes all the process of collecting, verifying and evaluating of past evidence systematically and objectively to reach conclusion. Some statistical an accounting tools have been adopted to examine factors in this study. In this study descriptive and analytical research design has been done.

The research is historical as it has used the past data, description as the data has been described for their change observed under the aspect the data has been analyzed with the use of various tables and figures. It has utilized path the qualitative and quantitative data as the study has been made to evaluate the impact of NRB guidelines.

3.2 Populations and Sample

There are altogether 31 commercial banks, which are functioning all over the country. Most of their stocks are already traded in the stock market. In this study, Investment policy of SCBNL ltd. Is compared with NBL and NIBL, which is selected from population. The selected commercial banks are selected on the basis of assets, share pricing and time when they were established.

Samples are taken from the total population, which are as follows:

S.N.	Name	Head Office
1	Nepal Bank Limited	Kathmandu
2	Rastriya Banijya Bank	Kathmandu
3	Agriculture Development Bank Ltd.	Kathmandu
4	Nabil Bank Ltd.	Kathmandu
5	Nepal Investment Bank	Kathmandu
6	Standard Chartered Bank Nepal Ltd	Kathmandu
7	Himalayan Bank Ltd	Kathmandu
8	Nepal SBI Bank Ltd.	Kathmandu
9	Nepal Bangladesh Bank Ltd	Kathmandu
10	Everest Bank Ltd.	Kathmandu
11	Bank of Kathmandu Ltd.	Kathmandu
12	Nepal credit and commerce bank Ltd.	Siddarthanagar
13	Lumbini Bank Ltd.	Narayanghat

14	Nepal Industrial and commerce Bank Ltd.	Biratnagar
15	Marchapurchhre Bank Ltd.	Pokhara, Kaski
16	Kumari Bank Ltd.	Kathmandu
17	Laxmi Bank Ltd.	Birgung, Parsa
18	Siddhartha Bank Ltd.	Kathmandu
19	Global Bank Ltd.	Birgung, Parsa
20	Citizen Bank International Ltd.	Kathmandu
21	Prime Commercial Bank Ltd	Kathmandu
22	Sunrise Bank Ltd	Kathmandu
23	Bank of Asia Nepal Ltd.	Kathmandu
24	Development Credit Bank Ltd.	Kathmandu
25	NMB Bank Ltd.	Kathmandu
26	Kist Bank Ltd.	Kathmandu
27	Janata Bank Ltd.	Kathmandu
28	Mega Bank Nepal Ltd.	Kathmandu
29	Commerz & Trust Bank Nepal Ltd	Kathmandu
30	Civil Bank Ltd.	Kathmandu
31	Century Bank Ltd.	Kathmandu

From this population, Standard Chartered Bank Nepal Ltd., Nepal Investment Bank & Nabil Bank Ltd. Have been selected in sample for the study.

- Standard Chartered Bank Nepal Limited,

Standard Chartered Bank Nepal Limited (SCBNL) is the new name of Nepal Grindlays Bank, which was established in 1985 as a second foreign joint venture bank under the company act of 1964. Nepal Grindlays bank was established in Nepal among other JVBs to contribute in commercial sector of Nepalese economy. Among share of this bank, 50% of the share capital was

originally owned by ANZ Grindlays Bank U.K., which managed and controlled the overall activities of the Bank. SCBNL holds 50% of total equity capital investment; general public investor olds 35% of total equity share capital by Nepal Bank Ltd and remaining 15% shares capital. The bank is being managed under joint venture and technical services agreement that was signed between SCBNL and Nepalese promoters. The Standard Chartered Banking network of 570 offices spanning more than 55 countries means more of what you have always enjoyed.

Capital Structure of Standard Chartered Bank Nepal limited is as follows:

Capital	(Rs in millions)
Authorized equity capital	2000.00
Issued equity capital	1398.483
Paid up equity capital	1398.483

- Nabil Bank Limited

Nabil Bank Limited is the new name of Nepal Arab Bank Ltd. From January, 2002, which commercial its operation on 12 July 1984 as the first joint venture bank in Nepal under company, Act, 1964, and Commercial Bank Act, 1974. Dubai Bank Ltd was the first joint venture partner of Nabil, Currently NB (International) limited, Ireland is the foreign partner. Nabil is the pioneer in introducing many innovative products and marketing concepts in the banking sector of Nepal.

Capital Structure of Nabil Bank Limited is as follows:

Capital	(Rs in millions)
Authorized equity capital	1600.00
Issued equity capital	1449.124
Paid up equity capital	1449.124

- Nepal Investment Bank Limited

Nepal Investment Bank Ltd (NIBL)'s share structure is divided among four groups. A group of companies holding 50% of the capital, Rastriya Baniya Bank and Rastriya Beema Sansthan holding 15% each and the remaining 20%, held by the general public.

Capital Structure of Nepal Investment Bank Limited is as follows:

Capital	(Rs in millions)
Authorized equity capital	4000
Issued equity capital	2409
Paid up equity capital	2409

3.3 Data Collection Technique

This study is mainly based on secondary data. The secondary sources of data colle3ctions are Balance Sheet, P&L Account of concerned banks, Nepal Stock exchange's NEPSE report. Other relating data are obtained directly from authorized persons of concerned banks' regulations authorities i.e. Ministry of Finance, NRB Budget speech, published books, banks bulletin, Newspapers, previous studies, central library T.U., Shanker Dev Campus library, Securities exchange Board etc. The data are prerequisites for any project study. The data collection entails labor and time and it is the most necessary step in project study without which the study cannot be done.

3.4 Data Analysis Tools

Analysis and presentation of the data is the core of project study. This study needs some financial and statistical tools to accomplish the objectives of this study. The data extracted from financial, statistical and accounting tools have been used. These results are then compared with each other to interpret he results. Two kinds of tools have been used to achieve the purpose, namely:

1) Financial tools and
2) Statistical tools

3.4.1 Financial tools

Financial tools help to analyze the strength and weakness of a firm. Ratio analysis being one of the important financial tools has been used in this study. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. Ratios help to summarize the large quantities of financial data and to make qualitative judgment about the firm's performance. The point to note is that a ratio indicates a quantitative relationship, which can be used to make a qualitative judgment. There are several ratios involve in analyzing and interpreting the financial statement. In this study, four types of ratios have been used which are related to Investment policy of banks.

They are as follows:

A. Liquidity Ratio

Liquidity Ratio measures the firm's ability to meet its current obligation. Commercial banks collect fund from the community with a commitment to return depositor's fund, facilitate withdrawal on demand. A firm should ensure that it does not suffer from lack of liquidity and also that it does not have excess liquidity. It is necessary to strike a proper balance between high liquidity and lack of liquidity. The following ratios are evaluated under liquidity ratio:

i. Current Ratio

Current ratio shows the short-term solvency and the relationship between current assets and current liabilities. Generally, current assets include cash and bank balance, loan and advances, money at call of short notice, investment on government securities and other interest, overdraft, bill purchase and discount, receivable and miscellaneous current assets. Similarly, current liabilities include deposit and other account, bill payable, short terms loan. Tax provisions, staff

bonus, dividend payable and miscellaneous current liabilities. Current ratio can be computed as,

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

The accepted standard of current ratio is 2:1

ii. Cash and Bank Balance to Total Deposit Ratio

They are the most liquid of current of current assets to pay off depositors immediately. Dividing cash and bank balance calculate this by total deposits. In order to bring about consistency in this research, checks for clearing have been excluded from cash and bank balance and included in other assets. Mathematically,

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

Cash and Bank balance includes cash on hands, foreign cash on hand; cheques and other cash items balance with domestic banks and foreign banks. Similarly, total deposit consists of current deposits, fixed deposits, saving deposits, money at calls and short-term notice and other deposits.

iii. Cash and Bank Balance to Current Assets Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance in the current assets of the firm. Higher ratio shows greater capacity of firms to meet cash demand. The ratio is calculated by dividing cash and bank balance by current assets

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

iv. Loan and Advance to Current Assets Ratio

The major portion of a bank's asset side of the balance sheet in includes loan and advances. Loan and advance comprise of loan and advance, credit overdraft, bills purchased and discounted. In his research study, staff loan and advances have been treated as other assets to maintain status quo with the practice followed by banks. It shows the percentage of total loan and advances to current assets. Mathematically.

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

v. Investment on Government Securities to Current Assets Ratio

This ratio helps to find out the percentage of current assets invested on the government securities, treasury bills and development bonds. This ratio can be computed as:

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

B. Assets Management Ratio (Activity Ratio)

Assets management activity or turnover ratios are used to measure how effectively the firm in managing its assets. These ratios are designed to answer the question, such as does the total amount of each type of asset as reported on the balance sheet seem reasonable, too high or too low in view of current and projected operating level? These are used measure the bank's ability to utilize

their available limited resources. The following ratio is used under this assets management ratio:

i Loan and Advances to Total Deposit Ratio

This ratio is computed to find out, how successfully the banks are utilizing their total deposit on loan and advances for profit generation purpose. Higher ratio indicates the better utilization of loan and advances out of total deposit. This ration can be calculated by dividing loan and advances by total deposits. Mathematically, it can be stated as:

$$\frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

ii Loan and Advances to Total Working Fund Ratio

Loan and Advances are the major component of the total working fund, which indicates the ability of banks and finance companies in terms of high earning profit from loan and advances. This ration can be calculated by dividing loan and advances by total working fund. Mathematically, it can be stated as:

$$\frac{\text{Loan and Advances}}{\text{Total working Fund}}$$

Where, total working fund includes all assets of on-balance sheet item current assets, net fixed assets, loan for development banks and other miscellaneous assets but excludes off-balance sheet item i.e. letter of credit, letter of Guarantee etc.

iii Total Investment to Total Deposit Ratio

This ration shows how properly firm's deposits have invested on government securities and shared and debenture of other companies and banks. It can be

computed by dividing total investment by total deposit. Mathematically, it can be formulated as:

$$\frac{\text{Total Investment}}{\text{Fund Total Deposit}}$$

Where, the total investment includes investment on government securities, investment on debenture, shares in other investment and other companies.

iv) Investment on Government Securities to Total working Fund ratio

This ratio shows investment on government securities of the banks in the companies of the total working fund. This ratio can be calculated by dividing investment on government securities by total working fund. Mathematically. It can be formulated as:

$$\frac{\text{Investment on Shares and Debenture}}{\text{Total working Fund}}$$

Where, the numerator includes investment and debenture, bond and shares of other companies

C) Profitability Ratios

The profitability ratios are calculated to measure the overall efficiency of a firm in terms of profit earning and performance. Profit is one of the major indicators of efficient performance of banks. One of the major objectives of banks is to earn profit, so profit is very crucial for the survival of banks. To meet various objectives like, maintaining good liquidity position, meet internal obligations, expansion of banking services, finance short-term government needs, commercial banks need to earn sufficient profit. A higher profit ratio shows higher efficiency of a bank.

i) Return on loan and Advances Ratio

Return on loan and Advances ratio indicates how efficiently the bank has utilized its resources in the form of loan and advances to generate good return . it measures the earning capacity of a commercial bank. This ratio is calculated by dividing net profit by loan and advances. Mathematically, it can be stated as:

$$\frac{\text{Net profit (Loss)}}{\text{Loan and Advances}}$$

ii) Return on Total Working Fund Ratio

Return on total assets shows the overall profitability of working fund or total assets. Return on working fund ratio is a measuring rod of the profitability with respect to each financial resource investment of banks asset. If the banks total working fund is well managed and utilized efficiently, return on such assets will be higher and vice versa. This ratio is calculated by dividing net profit by total working fund. It is calculated by dividing net profit by total assets. Mathematically, it can be stated as:

$$\frac{\text{Net profit (loss)}}{\text{Total working fund}}$$

iii) Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to find the percentage of interest earned to total assets. This ratio reflects the extent to which banks are successful in mobilizing their assets to generate high income. This ratio presents the earning capacity of a bank on its total working fund. Higher ratio indicates better performance or proper utilization of total assets in the form of interest earned on its working fund. This ratio is calculated by dividing total interest earned by total working fund. Mathematically, it can be calculated as:

$$\frac{\text{Total Interest Earned}}{\text{Total working fund}}$$

iv) Total Interest Paid to Total Working Fund Ratio

This ratio indicates the percentage of interest paid on liabilities with respect to total working fund. This ratio is calculated by dividing total interest paid by total working fund. Mathematically, it can be expressed as:

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

Where total interest paid includes total expenses on deposits liabilities, loan and advances (Borrowing), other deposit etc.

v) Total Interest Earning to Operating Income Ratio

This ratio is calculated to find the percentage of interest earned to total outside assets the bank, which includes loan and advances, investment on Government securities, investment on share and debentures and all other types of investment. It is calculated by dividing total interest earned by total outside assets. A high ratio indicates high return on total assets and vice-versa. Mathematically,

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

D) Risk Ratios

Risk means uncertainty, variability of return, which is inherent in any investment portfolio of a business enterprise. Risk is an important element since investment with greater risk requires higher return than investments with lower risk. The possibility of risk involved in bank's financial operations makes the bank investment a challenging task. As the notion goes, "no risk no gain", therefore, if a bank expects high return on its investment it must be prepared to accept the risk and manage it efficiently.

The following risk ratios are used to analyze and interpret the financial data and investment policy.

i) Liquidity Risk Ratio

Liquidity risk of the bank defines its liquidity needs for deposit. Cash and bank balance are the most liquid of all the assets and are considered bank's liquidity sources. Deposits on the other hand refer to the liquidity needs of banks. This ratio measures the risk associated with the liquid assets i.e., cash and bank balance that are kept to satisfy the cash demand of customers. A higher ratio shows that the banks has sufficient cash to meet its current obligations i.e., lower liquidity risk, but that may have an adverse impact on the profitability position of the bank. A tradeoff between liquidity and profitability must be maintained. Dividing cash and bank balance calculate this ratio by total deposit. Mathematically, it can be expressed as:

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

ii) Credit Risk Ratio

Normally, every credit is good at the time it is sanctioned. Most of the bank failures are due to shrinkage in the value of loan and advances. Loan is a risky

asset and risk of non-repayment of loan in known as credit risk or default risk. Credit risk ratio measures the possibility of loan going into default. While sanctioning loans banks measure credit risk involved in the project. Credit risk is calculated by dividing total loan and advances by total assets. Mathematically, it can be stated as

$$\frac{\text{Total Loan and Advances}}{\text{Total Loan}}$$

3.4.2 Statistical Tools

Some important statistical tools have been used to present and analyze the data for achieving the objectives of this study. Co-efficient of variance, co-efficient of correlation, standard deviation, least square, linear tend analysis etc. have been used for the purpose of investment policy analysis.

(A) Coefficient of correlation analysis

This statistical tool interprets and identifies the relationship between two or more variables. It identifies whether two or more variables are positively correlated or negatively correlated statistical tool helps to analyze the relationship between these variables and aids the selected banks to prepare appropriate investment policy relating to deposit collection, fund utilization (loan and advances and investment) and profit maximization. This study attempts to find out relationship between the following variables:

i. Co-efficient of correlation between deposit and loan and advances.
ii. Co-efficient of correlation between total deposit and total investment.
iii. Co-efficient of correlation between deposits and net profit.
iv. Co-efficient of correlation between deposits and interest earned.
v. Co-efficient of correlation between loan and advances and interest paid.
vi. Co-efficient of correlation between total working fund and net profit.

Karl Pearson's correlation coefficient (r) can be obtained by using the following formulae.

$$r \text{ X} \frac{xy}{\sqrt{x^2}\sqrt{y^2}}$$

Where

r= Karl Pearson's coefficient of correlation

The result of coefficient of correlation is always between +1 or -1 when r= +1, it means there is significant relationship between variables and when r = -1, it means there is no significant relationship between two variables.

B) Trend Analysis

These analyses interpret or analyze the trend of deposits, loan and advances, investment and net profit of Standard chartered Bank Ltd, Nabil Bank Ltd., and Nepal Investment Bank Ltd. From 2005/06 to 2009/10. And it helps to make forecasting for next five years up to 2014/15.

The following trend analysis has been used in this study. They are as follows:

i) Trend Analysis of total deposits.
ii) Trend Analysis of loan and advances.
iii) Trend Analysis of total investment.
iv) Trend Analysis of net profit.

The trends of related various variables could be calculated as,

$$Yc = a + bx$$

Where,

Yc = Dependent Variable

x = Independent Variable

a= y Intercept Variable

b= Slope of the Trend Line

C) Standard Deviation (S.D.)

The standard deviation measures the absolute dispersion. The lower the percentage of dispersion lowers the standard deviation. The lower percentage of dispersion also projects a high degree of uniformity of the observations as well as homogeneity of the series. A large value of standard deviation suggests exactly the opposite. In this study standard deviation of different ratios are calculated. Mathematically, it can be calculated as,

$$S.D.(\pm)\ \mathrm{X}\sqrt{\frac{X^2}{n}\ \mathrm{Z}\ \frac{X}{n}^2}$$

Where,

x= variable

n= no of observation

D) Coefficient of Variation (C.V.)

The coefficient of variation (C.V.) us the relation measure of dispersion. Comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It can be computed as,

$$\boxed{C.V.\ \mathrm{X}\frac{\pm}{\overline{X}}\ |100}$$

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

The main purpose of his chapter is to analyze and evaluate the major financial and statistical items, which are directly related to the investment management and fund mobilization of SCBNL in comparison to between NIBL and Nabil. There are many kinds of financial ratios but only those ratios are calculated and analyzed which are very important to evaluate the fund mobilization of commercial banks.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of the balance sheet. Under this topic, some financial tools such as liquidity ratio, asset management ratio, profitability ratio, asset management ratio, profitability ratio, risk ratio and growth ratio are used to achieve the objective of the study. These tools are more important to evaluate fund mobilization of the commercial banks.

4.1.1 Liquidity Ratios

Commercial bank should maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits, withdraws, pay maturity obligation on time and concert non-cash to satisfy immediate needs without loss to banks and consequent impact in long run profit. The liquidity position of the commercial banks is comparatively studied through the following ratios:

i) Current Ratio

Current ratio indicates the ability of the banks to meet to its current obligation. This ratio measures the liquidity position of the financial Institutions. It is calculated by dividing current assets by current liabilities. The widely accepted standard of current ratio 2:1 but accurate standard depends on circumstances in case to banking and seasonal business

ratio such as 1:1 etc. The current ratio of SCBNL, NIBL & Nabil bank is given in the following table

Table No. 4.1

Current Assets to Current Liabilities ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	1.080	1.074	1.06329
2006/07	1.055	0.404	1.058067
2007/08	1.056	0.358	0.76405
2008/09	1.068	0.590	0.812549
2009/10	1.062	0.931	0.916281
Total	5.3237	3.3596	4.6142
Mean	1.0647	0.6721	0.9228
S.D.	0.0088	0.2849	0.1228
C.V.	0.8347%	42.389%	13.31%

Source: Annual report of SCBNL, NIBL & Nabil

In the above table, current ratios of commercial banks are computed as per 'Appendix- A, B and C'. Similarly, mean, standard deviation and coefficient of variation of current ratios are calculated as per 'Appendix-D'.

The current ratio of SCBNL over the study period has range between 1.08 (2005/06) to 1.055 (in2006/07); whereas ratio of NIBL has range between 1.074 (2005/06) to 0.358 in 2007/08); whereas ratio of Nabil has range between 1.06329 (2005/06) to 0.76405 (in 2007/08). The above table clearly indicates that the current ratios of the banks are always below the standard i.e. 2:1 but in the case of NIBL in 2007/08 the ratios is 0.358. It is mainly due to decrease money at call and short notice and increase deposits and other A/C. If the mean ratio is observed it is found that the SCBNL is higher than NIBL & Nabil. The S.D. of SCNBL is less than NIBL and Nabil, Similarly, the C.V. of SCBNL is

less than NIBL and Nabil i.e. SCBNL (0.8847%), NIBL (42.389%) and Nabil (13.31%). It indicates that the current ratio of SCBNL is more consistence than NIBL and Nabil. And we can say that SCBNL has sound ability to meet its short-term obligation.

ii) Cash and Bank Balance to Total Deposit Ratio

This ratio measures the availability of banks highly liquid or immediate funds to meet its unanticipated calls on all types of deposits, money at calls and short-term notice and other deposits. It can be calculated by dividing the amount of cash and balance by the total deposits. Higher ratio indicates the greater ability to meet their deposits and vice-versa. Following table shows the cash and banks balance to total deposit ratios of SCBNL, NIBL & Nabil:

Table No:- 4.2

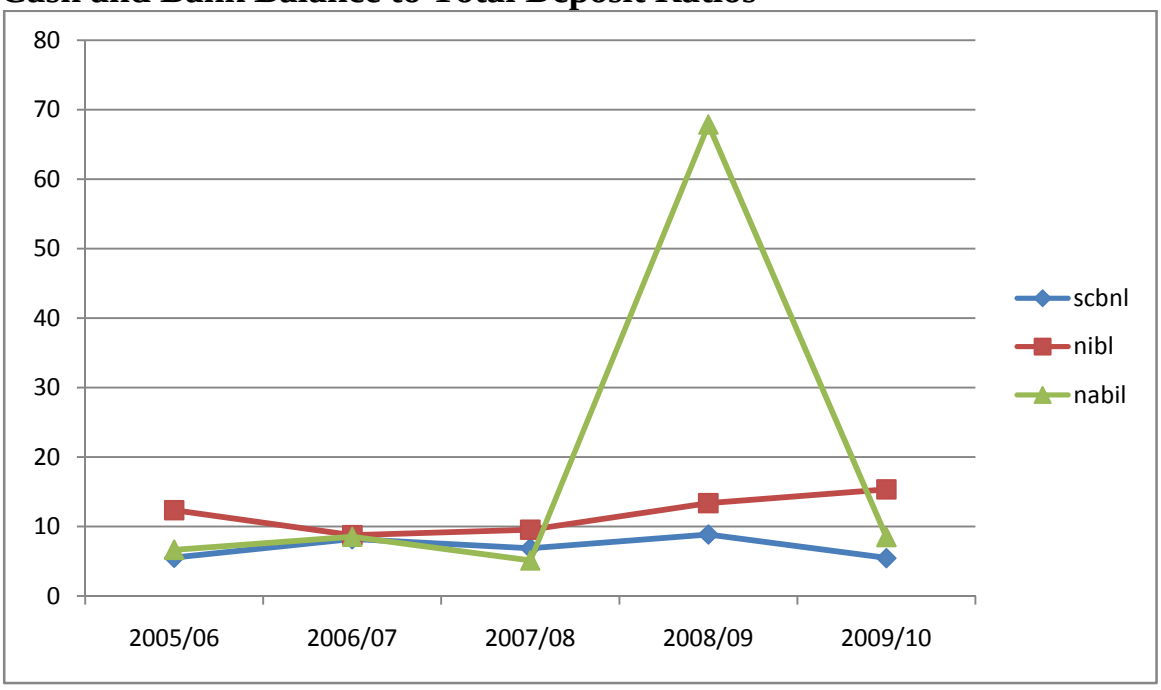
Cash and Bank Balance To Total Deposit Ratios

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	5.53	12.3393	6.6665
2006/07	8.2	8.7602	8.5195
2007/08	6.89	9.5333	5.1323
2008/09	8.87	13.3723	67.8401
2009/10	5.48	15.34	8.51
Total	34.50	59.34	96.67
Mean	6.997	11.87	19.33
S.D.	1.37	2.43	24.28
C.V.	19.61	20.51	125.64

Source: Annual report of SCBNL, NIBL & Nabil.

The above table shows the mean, standard deviation and coefficient of variance of cash and bank balance to total deposit ratio. In the table mentioned ratio are calculated as per 'Appendix-A, B and C' and mean S.D. and C.V. are calculated as per 'Appendix-D)

Figure No: 4.1
Cash and Bank Balance to Total Deposit Ratios



Above figure in the table, indicate the percentage of cash and bank balance to total deposits position of SCBNL, NIBL & Nabil. It shows that the ratio (CRR) of SCBNL trend is decreasing scale for the period 2007/08 to 2008/09. It has range from 15.34 (in 2009/10) to 8.7602 (in 2006/07) NIBL has fluctuating trend. Similarly, the highest ratio of Nabil is 67.8401 (in 2008/09). It has fluctuating trend.

The mean of ratios of SCBNL is less than that of NIBL and Nabil. The standard deviation of SCBNL, NIBL and Nabil are 1.37, 2.43 and 24.28 respectively. Similarly, CV of SCBNL, NIBL and Nabil are 0.1961, 0.2051 and 1.2564 respectively. From the above analysis, it can be concluded that Nabil has better maintenance of its liquidity than SCBNL and NIBL .

(iii) Cash and Bank Balance to Current Assets Ratio

This ratio reflects the portion of cash and bank balance in total current assets. Cash and bank balance are highly liquid assets than other in current assets portion. So this ratio visualizes higher liquidity position than current ratio. It is computed by dividing cash bank and balance by current assets. Higher ratio shows the bank's ability to meet its demand for cash.

Table No. 4.3

Cash and Bank Balance to Current Assets Ratio.

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	9.9224	10.9194	5.2746
2006/07	12.138	13.9454	7.3619
2007/08	10.665	16.1592	6.1763
2008/09	17.114	13.3574	7.9005
2009/10	9.277	16.1652	8.2546
Total	59.12	70.55	34.97
Mean	11.82	14.11	6.99
S.D.	2.8089	0.0198	1.108
C.V.	0.2376	0.1401	0.1584

Source: Annual report of SCBNL, NIBL & Nabil.

The above table shows mean, S.D. & C.V. cash and bank balance to current assets ratio. In the table mentioned ratios are calculated as 'Appendix-A, B and C and mean S.D. and C.V. are calculated as per 'Appendix-D'.

Figure No: 4.2

Cash and Bank Balance to Current Assets Ratio.

The figure of the table shows the ratio in percentage of cash and bank balance to current assets positions of SCBNL, NIBL & Nabil. It shows that cash and bank balance to current assets ratios of Nablil has increasing trend from 5.2746 (in 2005/06) to 8.2546 (in 2009/10). SCBNL and NIBL has fluctuating trend.

The mean values of ratios of SCBNL, NIBL and Nabil are 11.82, 14.11 and 6.99 respectively. Standard deviation of NIBL is less than that of other two banks and similarly, C.V. less than other two banks. It shows that NIBL is stable and consistent than SCBNL and Nabil.

From the analysis of the above table, we can say that the cash and bank balance to current ratio of NIBL is better during the study period as the bank shows the ability to manage the deposit withdrawal for the customers although it has fluctuating trend. The trend position of the bank does not mean that the bank has mobilized its fund in the profitable sectors.

iv) Investment on Government Securities to Current Assets Ratio

This ratio examines that the position of commercial banks current assets, which is invested on different government securities, treasury bills and development bonds. This ratio can be calculated by dividing investment on government securities by current assets.

Table No: 4.4

Investment on Govt. Sec. to Current Assets Ratio.

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	20.7575	6.6177	11.7276
2006/07	20.052	11.5303	8.3429
2007/08	23.985	17.3441	20.7645
2008/09	3.144	8.3573	30.9484
2009/10	32.326	7.2767	25.8775
Total	100.56	51.13	97.66
Mean	20.71	10.23	19.53
S.D.	5.22	3.93	8.47
C.V.	0.2030	0.3839	0.4336

Source: Annual report of SCBNL, NIBL & Nabil

The above table shows mean, S.D. & C.V. of investment on government securities to current assets ratio. In the table mentioned ratios are calculated as 'Appendix-A, B and C and mean S.D. and C.V. are calculated as per 'Appendix-D'.

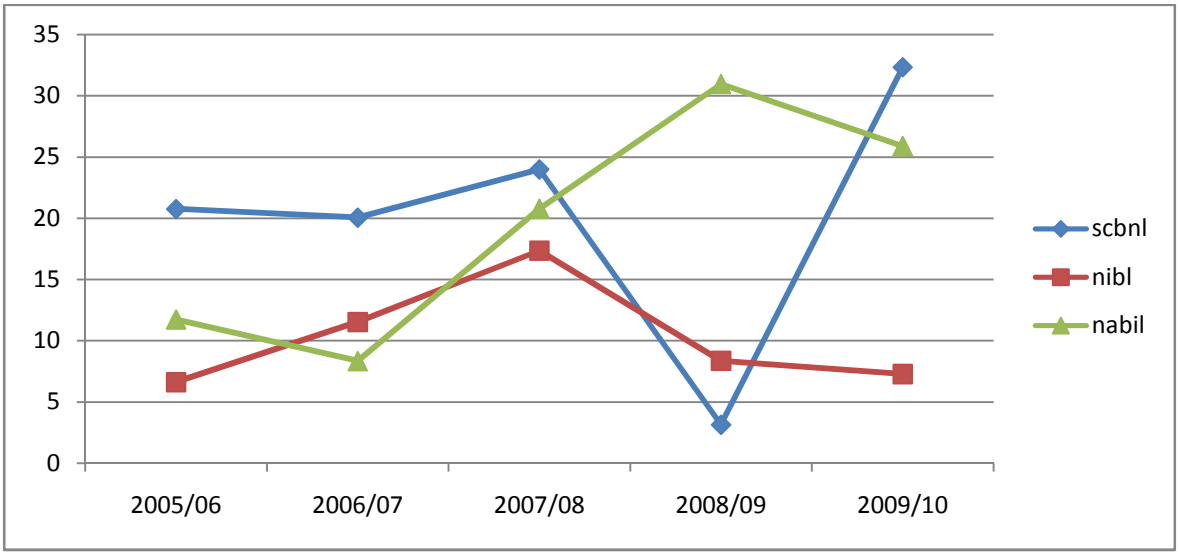
Investment on government securities to current assets ratios of SCBNL, NIBL and Nabil are fluctuating trend. SCBNL has range from 32.326 (in 2009/10) to

3.144 (in 2008/09). Similarly NIBL has range from 17.3441 (in 2007/08) to 6.6177 (in 2005/06). And Nabil has range from 30.9784 (in 2009/10) to 8.3429 (in 2006/07).

Mean values of these ratios of SCBNL, NIBL and Nabil are 20.71, 10.23 and 19.53 respectively. S.D. of these banks is 5.22, 3.93 and 8.47 respectively. Similarly, C.V. of these banks is 20.30, 38.39 and 43.36 respectively. This analysis reflects that SCBNL used to invest in government securities more than NIBL and Nabil and the investment is also quite stable that of NIBL and Nabil.

Figure No. 4.3

Investment on Government Securities to Current Assets Ratio



(v) Loan and Advances to Current Assets Ratio

Loan and advances are the current assets of commercial banks, which includes loan and advances, cash, credit, loan and foreign bills purchased, overdraft and discount. A commercial bank should not keep its all connected funds as cash and bank balance but they should be invested as loan and advances to the customers. Because they should earn high profit by mobilization and investing funds for long life banking, they must pay interest on these deposit funds even they don't generate loan and advances may lose some earning. But high loan

and advances may be harmful because they need sufficient liquidity. This ratio can be completed by dividing loan and advances to current assets.

Table No: 4.5

Loan and Advances to Current Assets Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	69.4703	61.6129	48.3945
2006/07	63.0777	115.5051	49.5964
2007/08	71.3612	135.4408	62.4878
2008/09	74.6271	78.7744	55.8678
2009/10	76.725	84.8157	55.9257
Total	355.26	476.15	272.27
Mean	71.05	95.23	54.45
S.D.	4.71	26.59	5.07
C.V.	0.0663	0.2792	0.0932

Source: Annual report of SCBNL, NIBL & Nabil

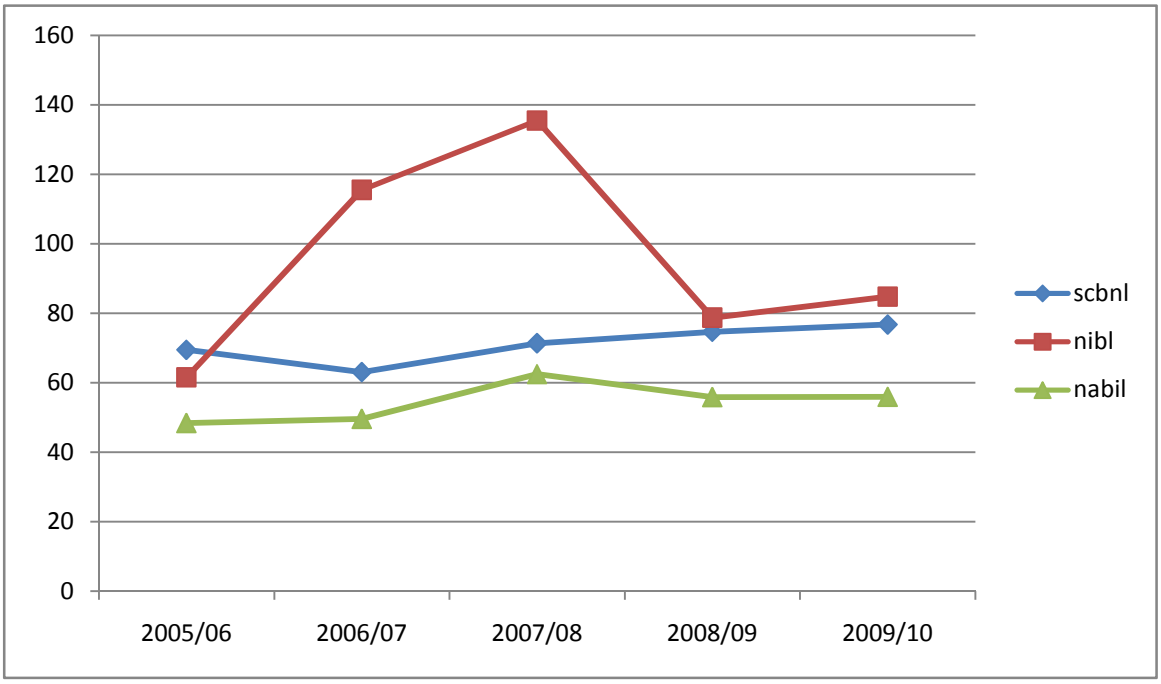
The above table shows mean, S.D. & C.V. of loan and advances to current assets ratio. In the table mentioned ratios are calculated as per 'Appendix-A, B and C mean S.D. and C.V. are calculated as per 'Appendix-D'.

The above table shows that loan and advances to current assets ratios of SCBNL has increasing trend but NIBL & Nabil are fluctuating trend. SCBNL has range from 63.0777 (in 2007/08) to 76.7250 (2009/10). NIBL has range from 135.4408 (in 2007/08) to 61.6129 (in 2005/06). Nabil has range from 48.3945 (in 2005/06) to 62.4878 (in 2008/09).

The mean value of ratio of Nabil is 54.45, which is less than that of SCBNL and NIBL. This analysis indicates that Nabil use to provide less loan and advances in comparison of SCBNL and NIBL. And its trend of approving loan and advances is also less consistency than of SCBNL and NIBL.

Figure No. 4.4

Loan and Advances to Current Assets Ratio



4.1.2 Assets Management Ratios

In order to satisfy its customers, earn profit and for its own survival a commercial bank must be well versed in managing its assets. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. In this study, it is used to measure the bank's ability to utilize their available resources. The following ratios related to investment policy are calculated under asset management ratio.

i.) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total deposits on loan and advances to generate profits. A higher

ratio is indicative of better utilization of total deposits, but the same might not hold true from liquidity point of view. It is computed by dividing total loan and advances by total deposits.

Table No: 4.6

Loan and advances to Total Deposit Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	38.7468	69.6247	61.1661
2006/07	42.6122	72.558	57.3947
2007/08	46.1223	79.9049	51.9252
2008/09	38.6972	78.8623	47.97283
2009/10	45.3545	80.4841	57.6751
Total	211.53	381.43	276.13
Mean	42.31	76.29	55.23
S.D.	3.159	4.39	4.6890
C.V.	7.47	5.75	8.49

Source: Annual report of SCBNL, NIBL & Nabil

From the above table, given ratios are calculated as per 'Appendix-A, B and C' and mean S.D. and C.V. of these ratios are calculated as per 'Appendix-D'.

The above table shows that loan and advances to total deposit ratios of SCBNL are fluctuating trend. Similarly, ratios of NIBL are increasing trend up to 2009/10. And ratios of Nabil are decreasing trend up to 2008/09. Then it increased in 2009/10.

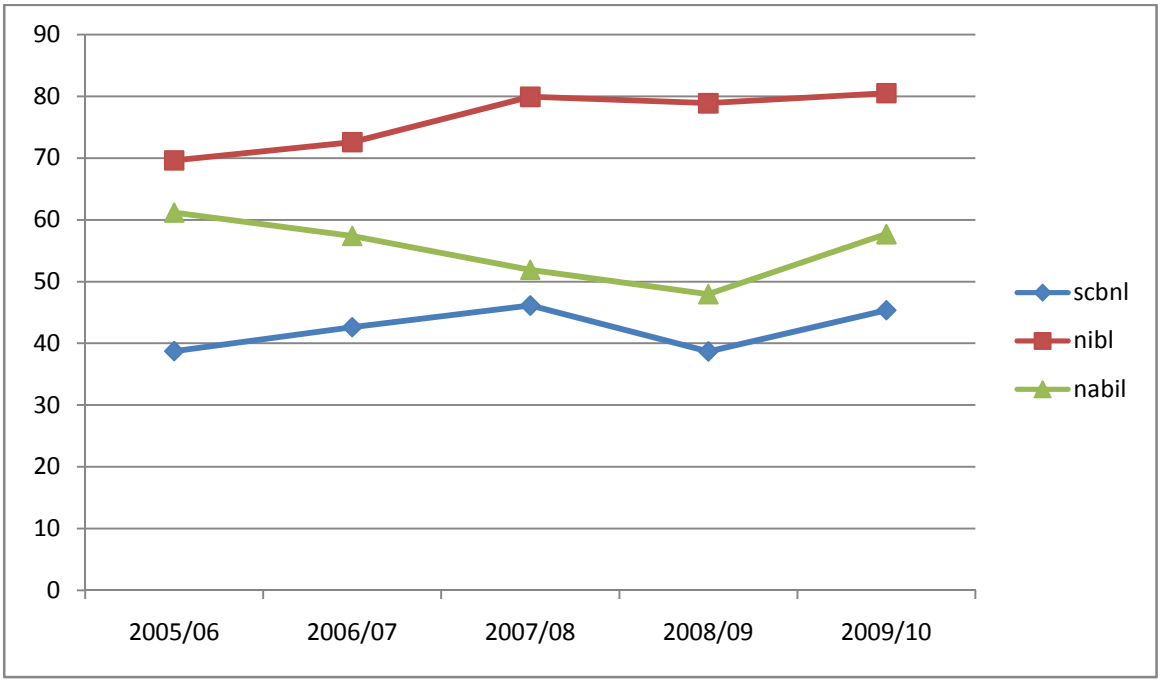
Here the value of mean ratios of SCBNL is the lower than NIBL and Nabil. NIBL has got success to maintain the highest ratios than SCBNL and Nabil.

Mean value of the ratios of SCBNL, NIBL and Nabil are 42.31, 76.29 and 55.23 respectively. But the C.V. of ratios of Nabil and SCBNL are 8.49 and 7.47 respectively, which are comparatively higher than NIBL. It clears that loan and advances to total deposit ratios of the Nabil and SCBNL are inconsistent in comparison to NIBL.

In conclusion, it is cleared that Nabil and SCBNL are failure to mobilize its total deposits on loan and advances in comparison to NIBL is success to mobilize its total deposits in loan and advances.

Figure No. 4.5

Loan and Advances to Total Deposit Ratio of SCBNL and Nabil



ii.) Loan and Advances to Total Working Fund Ratio

Loan and advances are the main components of the total working fund, which reflects the ability of banks and finance companies in terms of high earning profit from loan and advances. Higher ratio indicates better mobilization of fund as loan and advances and vice versa. This ratio can be calculated by dividing loan and advances by total working fund.

Table No: 4.7

Loan and advances to Total Working Fund Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	68.6443	60.6371	47.5124
2006/07	62.2076	148.5728	48.8196
2007/08	70.8709	103.9905	44.778
2008/09	74.1729	84.1612	42.1907
2009/10	75.9837	70.9914	46.8281
Total	351.88	468.3532	230.13
Mean	70.38	93.6706	46.03
S.D.	4.82	31.41	22.43
C.V.	6.85	33.53	48.72

Source: Annual report of SCBNL, NIBL & Nabil

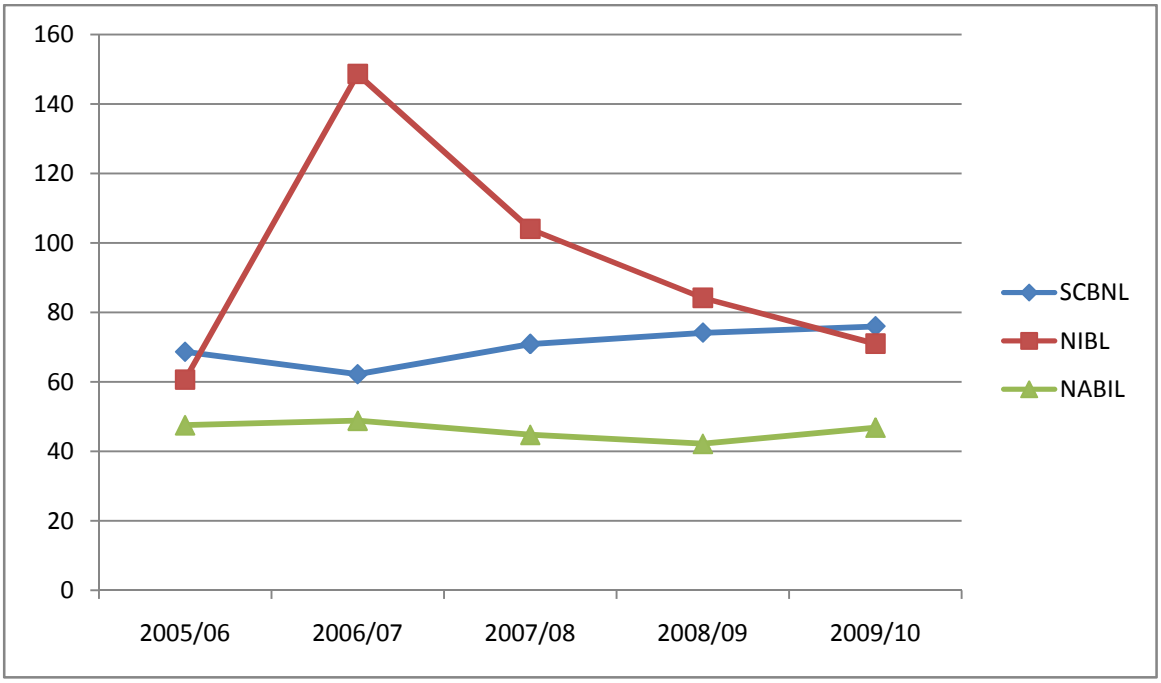
From the above table, given ratios are calculated as per 'Appendix-A, B and C' and mean S.D. and C.V. for these ratios are calculated as per 'Appendix-D'.

The above table indicates that loan and advances to total working fund ratios of NIBL is fluctuating trend. Similarly, ratios of SCBNL is increasing trend but the ratios of Nabil is slightly decreasing up to 2007/08 and grow up to in 2009/10. Mean values of SCBNL, NIBL and Nabil are 70.38, 93.67 and 46.03 respectively. Similarly, C.V. of these banks is 6.85, 33.53 and 48.72 respectively.

From the above analysis, we can conclude that NIBL is better to mobilize the funds as loan and advances for the purpose of income generation. SCBNL and Nabil are mobilized the fewer funds that NIBL. But it has higher consistency to mobilize the funds.

Figure No. 4.6

Loan and Advances to Total Working Fund Ratio



iii) Total investment to total deposit Ratio

This ratio shows the utilization of firm's deposits on investment in government securities and purchasing shares and debentures of other companies. A high ratio is indicative of high success in mobilization of deposits in investment and vice-versa. This ratio can be calculated by dividing total investment by total deposit.

Table No: 4.8

Total investment to Total Deposit Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	55.6721	29.9716	15.0076
2006/07	54.9893	26.7091	9.7886
2007/08	46.7416	20.1104	17.3797
2008/09	57.2437	15.8453	267.3119
2009/10	56.4127	17.2383	26.8522
Total	271.06	109.87	336.34
Mean	54.21	21.97	67.27
S.D.	3.81	5.48	100.20
C.V.	7.022	24.93	148.92

Source: Annual report of SCBNL, NIBL and Nabil.

From the above table, mentioned ratios are calculate as per ‘Appendix-A, B and C” and Mean, S.D. & C.V. of those ratios are calculated as per ‘Appendix-D’.

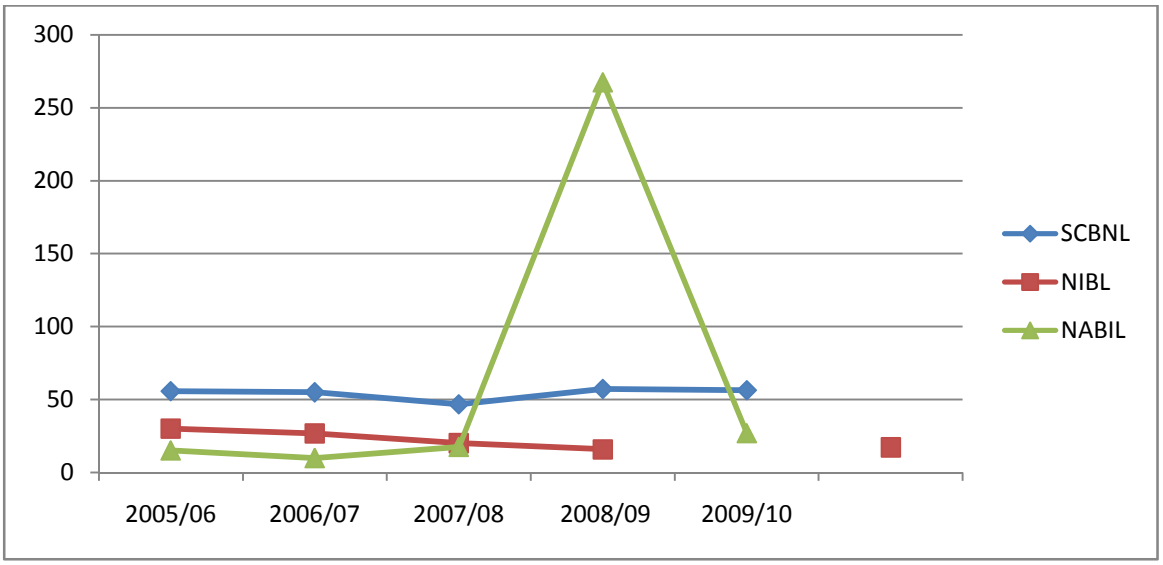
The above table shows that total investment to total deposit ratio of SCBNL is increasing from 46.74 (in 2007/08) to 56.41 (in 2009/10) then it is decreasing from 55.67 (in 2005/06) to 54.98 (in 2006/07). But the ratios of NIBL are decreasing from 29.97 (in 2005/06) to 15.84 (in 2008/09) and the ratios of Nabil has fluctuating trend. Mean values of SCBNL, NIBL and Nabil are 54.21, 21.97 and 67.27 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 7.022, 24.93 and 148.92 percent respectively.

From the above figure, it can be concluded that SCBNL has become success to better utilization of deposit to investment than Nabil and NIBL. But it has not

higher consistency to investment in securities or its has least investment in securities of different institution.

Figure No: 4.7

Total investment to Total Deposit Ratio



iv) Investment on Government Securities to Total Working Fund Ratio

This ratio shows the percentage of total working fund invested in government securities. In other words, this ratio measures the extent to which the banks have been successful in mobilizing their total working fund on different type of government securities. The logic behind Investment on government securities by banks is to diversify the risk by not putting all the eggs in the same basket. This is also beneficial in the sense that banks are assured of adequate liquidity. A high ratio indicates better mobilization of funds as Investment on government securities and vice-versa. This ratio can be calculated by dividing total amount of investment in government securities by the total working fund.

Table No: 4.9

Investment on Government Securities to Total Working Fund Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	20.5107	11.61	11.5138
2006/07	19.7751	29.48	8.2122
2007/08	23.8207	20.60	14.8796
2008/09	31.2482	16.91	23.3719
2009/10	32.0133	14.53	21.6679
Total	127.37	93.13	79.65
Mean	25.47	18.63	15.93
S.D.	5.20	6.1749	5.80
C.V.	20.41	33.15	36.41

Source: Annual Report of SCBNL, NIBL & Nabil

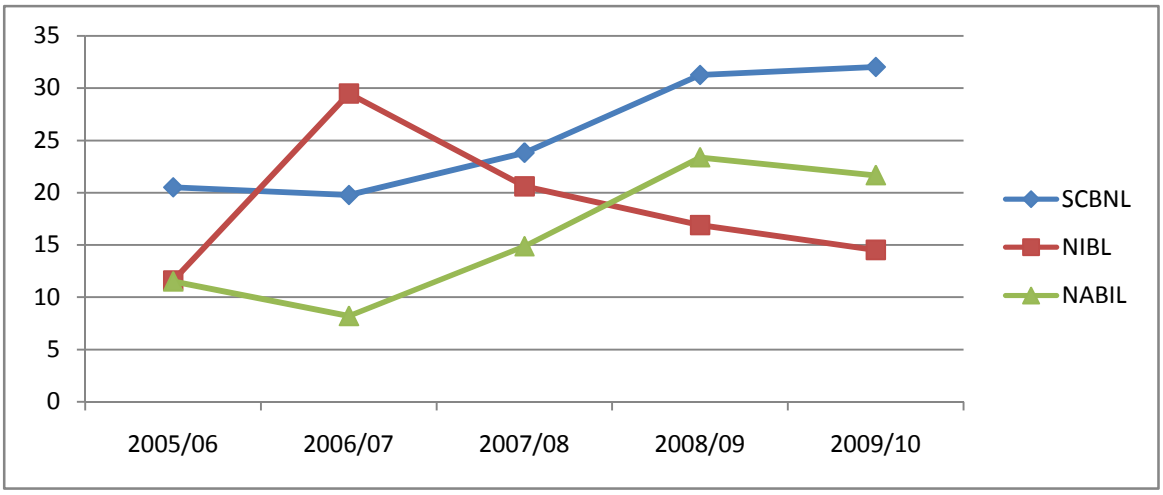
From the above table, mentioned ratios are calculated as per ‘Appendix-A, B and C’ & Mean, S.D. and C.V. of those ratios are calculated as per ‘Appendix-D’.

The above table shows that total investment on government securities to total working fund ratio of SCBNL & Nabil banks are increasing trend. SCBNL has range from 19.77 (in 2006/07) to 32.01 (in 2009/10) similarly, Nabil has range from 8.21 (in 2006/07) to 23.37 (in 2008/09) but the ratio of NIBL is fluctuating trend. NIBL has range from 14.546 (in 2009/10) to 29.476 (in 2006/07). Mean values of SCBNL, NIBL and Nabil are 25.47, 18.63 and 15.93 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 20.41, 33.15 and 36.41 percents respectively.

From the above, figure, it can be concluded that SCBNL has higher mean ratios than other two banks. It shows that SCBNL has succeeded to mobilize the funds as investment on government. Its investment policy is also consistent than other two banks.

Figure No. 4.8

Investment on Government Securities to Total Working Fund Ratio



v) Investment on Share and Debentures to Total Working Fund Ratio.

This ratio shows the percentage of total working fund invested in purchasing shares and bonds & debentures of other companies. Investment on shares and debentures to total working fund measures the extent to which the banks have been successful in mobilizing their total assets on shares and debenture of other companies to generate income. A high ratio indicates portion of investment on shares and debentures out of total working fund and vice-versa. This ratio is calculated by dividing the total amount of Investment is shares & debentures of companies by total working fund.

Table No: 4.10

Investment on Share and Debentures to Total Working Fund Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	0.086	6.513	0.1355
2006/07	0.0663	14.831	0.1073
2007/08	0.0578	13.317	0.1025
2008/09	0.0607	8.929	0.126
2009/10	0.0533	6.091	0.1342
Total	0.324	49.68	0.61
Mean	0.065	9.936	0.12
S.D.	0.0144	3.5476	0.0139
C.V.	22.21	35.7045	11.48

Source: Annual Report of SCBNL, NIBL & Nabil

From the above table, the mentioned ratios are calculated as per 'Appendix-A, B and C. And Mean, S.D. & C.V. of those ratios are calculated as per 'Appendix-D'.

The above table clears that investment on shares and debentures to total working fund ratios of SCBNL, NIBL are decreasing trend. SCBNL is decreasing from 0.086 (in2005/06) to 0.0533 (in 2009/10). Similarly, the ratio of NIBL is decreasing up to 2009/10. But Nabil has slightly increasing from 2007/08 up to 2009/10. Mean ratio of SCBNL, NIBL and Nabil are 0.065, 9.936 and 0.12 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 22.21, 35.70 and 11.48 respectively.

On the basis of mean ratio, it can be stated that NIBL has invested higher amount in share and debentures in comparison to other two banks. Because it has highest mean ratio i.e. 9.936 than SCBNL and Nabil, similarly, C.V. of Nabil 11.48 is lower than that of SCBNL and NIBL. It means investment ratio of Nabil is more consistent than SCBNL and NIBL. From this analysis, it is cleared that it has invested higher percentage of total assets on shares and debentures in comparison to SCBNL and NIBL

4.1.3 Profitability Ratio

The profitability ratios are calculated to measure the overall efficiency of a firm in terms of profit earning and performance. Profit is one of the major indicators of efficient performance of banks. One of the major objectives of banks is to earn profit, so profit is very crucial for the survival of banks. To meet various objectives like, maintaining good liquidity position, meet internal obligations, expansion of banking services, finance short-term government needs, commercial banks need to earn sufficient profit. A higher profit ratio shows higher efficiency of a bank.

i) Return on Loan and Advances Ratio

Return on loan and advances ratio indicates how efficiently the bank has utilized its resources in the form of loan and advances to generate good return. It measures the earning capacity of a commercial bank. This ratio is calculated by dividing net profit by loan and advances.

Table No: 4.11

Return on Loan and Advances Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	4.0229	2.6559	4.6033
2006/07	3.738	2.8195	4.487
2007/08	3.1405	2.5318	3.5427
2008/09	3.5031	2.4466	3.652
2009/10	3.177	3.1375	5.3668
Total	17.58	13.59	21.65
Mean	3.52	2.72	4.33
S.D.	0.2	0.11	0.78
C.V.	5.69	4.05	18.01

Source: Annual Report of SCBNL, NIBL & Nabil

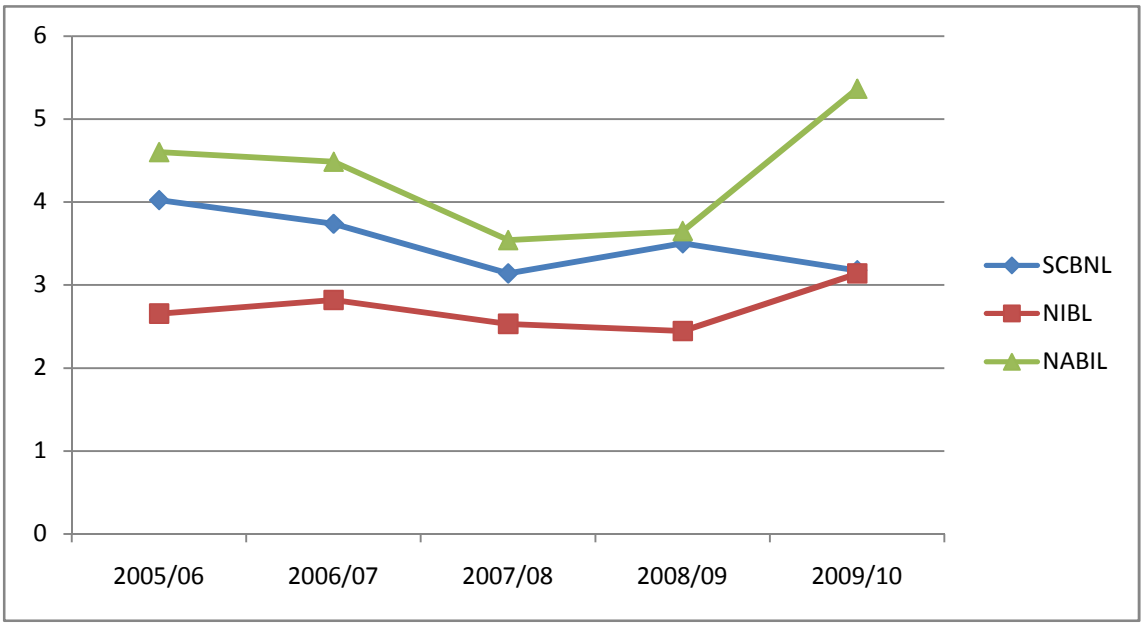
From the above table, the ratios are calculated as per 'Appendix-A, B and C' & Mean, S.D. and C.V. are calculated as per Appendix-D'.

The above comparative table shows that the ratios of SCBNL, NIBL & Nabil are seen to be in slightly fluctuating trend. SCBNL has 4.0229 highest ratios in 2005/06 and 3.1405 lowest ratio in 2007/08. NIBL has 3.1375 highest ratios in 2009/10 and 2.4446 lowest ratio in 2008/09. Similarly, Nabil has 5.3668 highest ratios in 2009/10 and 3.5427 is lowest ratio in 2007/08. Comparing the mean ratio, Nabil has higher ratio than SCBNL and NIBL the coefficient of variation.

From the above analysis, it can be conclude that Nabil has higher return on loan and advances in comparison to NIBL and SCBNL. But NIBL has higher consistency than that of Nabil and SCBNL. It is also clear that Nabil has its fund in productive sector to increase return ratios.

Figure No. 4.9

Return on Loan and Advances Ratio



ii) Return on Total Working Fund Ratio

This ratio is used to measure as profitability indicator with respect to each financial resources investment of banks assets. It shows he overall profitability of total working fund. It is also known as Return on Assets (ROA). The higher ratio indicates the better performance of banks. To make higher ratio, the bank's total working found should be managed and utilized effectively. This ratio can be calculated by dividing net profit by total working fund

Table No: 4.12

Return on Total Working Fund Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	2.7615	1.6105	2.1871
2006/07	2.3253	4.1890	2.1905
2007/08	2.2257	2.6329	1.5864
2008/09	2.5983	2.0590	1.5408
2009/10	2.414	2.2274	2.5132
Total	12.32	12.7188	10.02
Mean	2.46	2.5437	2.00
S.D.	0.36	0.8855	0.43
C.V.	14.60	34.8107	21.46

Source: Annual Report of SCBNL, NIBL & Nabil

From the above table, the ratio is calculated as per 'Appendix-A, B and C', and Mean, S.D. and C.V. are calculated as per 'Appendix-D'.

From the above comparative table, it reflects the ratios of three banks are seen to be in fluctuating trend. SCBNL has 2.598 highest ratios in 2008/09 and 2.2257 lowest ratio in 2007/08. Mean ratios of SCBNL, NIBL and Nabil are 2.46, 2.5437 and 2.00 respectively. And C.V. of these banks is 14.60, 34.8107 and 21.46 respectively.

In conclusion, it can be said that NIBL has higher ratio than Nabil and SCBNL. It indicates NIBL is able to earn high profit on total working fund assets in comparison to SCBNL and Nabil. Coefficient of Variation of other two banks are seems to be weak to earn high return on its working fund. Nabil and SCBNL

are to make efforts to earn high profit by mobilizing its working assets more efficiently.

iii) Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to acquire as interest. This ratio reveals the earning capacity of commercial banks by mobilizing its working funds. Higher ratio indicates higher earnings power of the bank on its total working fund and vice-versa. It can be calculated by dividing total interest earned by total working fund.

Table No: 4.13

Total Interest Earned to Total Working Fund Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	9.1388	3.1371	7.4132
2006/07	8.3632	18.3469	6.9689
2007/08	8.2202	8.2887	6.8965
2008/09	10.2326	7.4682	6.3540
2009/10	9.7241	9.09	6.1456
Total	45.6790	45.4348	33.7785
Mean	9.1358	9.09	6.76
S.D.	0.7691	5.004	0.5305
C.V.	8.4185	55.0679	7.8527

Source: Annual Report of SCBNL, NIBL & Nabil

From the above table, the ratio is calculated as per 'Appendix-A, B and C', and Mean, S.D. & C.V. are calculated as per 'Appendix-D'.

The above table shows that the total interest earned to total working fund ratios of SCBNL is in slightly fluctuating trend but the ratios of NIBL is much fluctuating trend. SCBNL has the range from 9.1388 (in 2005/06) to 10.2326 (in 2008/09) and the ratio of Nabil is decreasing up to 2009/10. The ratio of NIBL has range from 7.4682 (in2008/09) to 18.3469 (in 2006/07). The mean ratios of SCBNL, NIBL & Nabil are 9.1358, 9.09 and 6.76 respectively. Similarly, C.V. of SCBNL, NIBL & Nabil are 8.4185, 55.0679 and 7.8527 respectively.

In the case of mean ratios, SCBNL has highest mean ratios than NIBL & Nabil. It clears that SCBNL's interest earning power with respect to total working fund seems to be effective than that of NIBL & Nabil. In case of C.V., Nabil has lower 7.8527 than SCBNL and NIBL. It indicates that the earnings ratio with respect to total working fund of Nabil is more stable then SCBNL and NIBL.

iv) Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of interest paid on liabilities with respect to working fund. Higher indicates higher interest expenses on total working fund and vice-versa. This ratio can be calculated by dividing total interest paid by total working fund.

Table No: 4.14

Total Interest Paid to Total Working Fund Ratio

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	2.3293	2.2590	3.3190
2006/07	2.4465	8.2958	2.8818
2007/08	2.4370	3.7478	3.1489
2008/09	2.9485	3.8415	2.6211
2009/10	2.7416	4.4967	1.9161
Total	12.9028	22.6409	13.8868
Mean	2.5806	4.5282	2.7774
S.D.	0.2357	2.0211	0.4993
C.V.	9.1336	44.6338	17.9774

Source: Annual Report of SCBNL, NIBL & Nabil

From the above table, the ratios are calculated as per 'Appendix-A, B and C, Mean, S.D. and C.V. are calculated as per 'Appendix-D'.

The above comparative table shows that the total interest paid to total working fund ratios of SCBNL & Nabil are in decreasing trend. SCBNL has 2.9485 highest ratios in 2008/09 and 2.3293 lowest ratio in 2009/10. And the ratio of Nabil has highest ratio 3.3190 in 2005/06 and 1.9161 lowest ratios in 2009/10. Similarly, the ratios of NIBL is decreasing (3.8415) in 2008/09 and increasing from 2009/10. Mean ratio of SCBNL, NIBL & Nabil are 2.5806, 4.5282 and 2.7774 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 9.1336, 44.6338 and 17.9774 respectively.

The mean ratio of NIBL is higher than other two banks. It indicates that the interest paying capacity of NIBL on its working fund is higher than that of other

two banks. But SCBNL has lower C.V. of ratios in comparison to NIBL, which indicates that SCBNL has more consistency than NIBL. In this way, it can be concluded that SCBNL is in better position, from interest payment point of view.

v) Total Interest Earned to Operating Income Ratio

This ratio is measured to find out the ratio of interest income of the bank. It shows how efficiently the banks have mobilized their resources in interest bearing assets i.e., loan and advances investment in government securities. Total operating income includes interest income, commission fees & discount, dividend income, foreign exchange income etc. this ratio shows the magnitude of interest income in total income. It is calculated by dividing total interest earned by net operating income operating income.

4.1.4 Risk Ratios

Risk means uncertainty, variability of return, which is inherent in any investment portfolio of a business enterprise. Risk is an important element since investment with greater risk requires higher return than investments with lower risk. Risk ratios measures the degree of risk involved in various financial operations. The possibility of risk involved in bank's financial operations makes the banks investment a challenging task. As the notion goes, "no risk no gain", therefore, if a bank expects high return on its investment it must be prepared to accept the risk and manage it efficiently. Two ratios are used in this risk ratio, which is as follows:

i) Liquidity Risk Ratio

Liquidity risk of the bank defines its liquidity needs for deposit. Cash and bank balance are the most liquid of all the assets and are considered bank's liquidity sources. Deposits on the other hand refer to the liquidity needs of banks. This

ratio measures the risk associated with the liquid assets i.e., cash and bank balance that are kept to satisfy the cash demand of customers. A higher ratio shows that the banks has sufficient cash to meet its current obligations i.e. lower liquidity risk, but that may have an adverse impact on the profitability position of the bank. A tradeoff between liquidity and profitability must be maintaining.

Table no: 4.15

Liquidity Risk Ratio (Cash and bank balance to Total Deposit ratio)

Fiscal Year	Ratio		
	SCBNL	NIBL	Nabil
2005/06	5.5342	12.3393	6.6665
2006/07	8.1999	8.7602	8.5195
2007/08	6.8930	9.5333	5.1323
2008/09	8.8744	13.3723	67.8401
2009/10	5.4837	15.3396	8.5128
Total	34.9850	59.3448	96.6712
Mean	6.9970	11.8690	19.3342
S.D.	1.3720	2.4349	24.2860
C.V.	19.6083	20.5149	125.6114

Source: Annual Report of SCBNL, NIBL & Nabil

From the above table, the ratios are calculated as per 'Appendix-A, B and C', and Mean, S.D. & C.V. are calculated as per 'Appendix- D'.

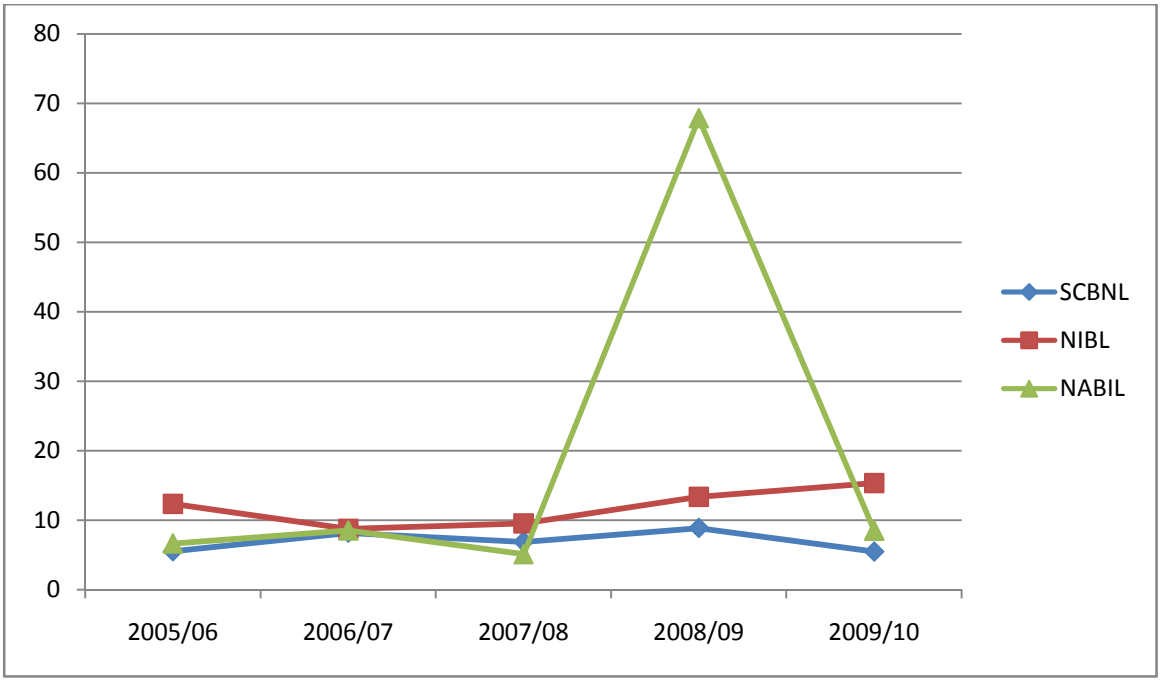
According to the above table, the liquidity risk ratios of all banks have fluctuating trend. SCBNL has recorded 8.8744 highest ratios in 2008/09 and 5.4837 lowest ratio in 2009/10. NIBL has the highest ratio of 13.3723 in 2008/09 And 8.7602 Lowest ratio in 2006/07 Nabil has the highest ratio of

67.8401 in 2008/09 and 5.1323 lowest ratio in 2007/08. Mean ratios of SCBNL, NIBL & Nabil are 6.9970, 11.8690 & 19.3342 respectively.

The mean ratio of SCBNL is lower than NIBL & Nabil; it indicates that SCBNL has maintained more consistency in comparison to NIBL & Nabil. Here, it can be said that SCBNL has maintained lower liquidity, which means it is operation with higher risk, which increase profitability, but NIBL and Nabil has maintained higher liquidity which operates lower risk and decrease profitability. It has also maintained, stable liquidity policy because of lower coefficient of variation.

Figure No. 4.10

Liquidity Risk Ratio (Cash and bank balance to Total Deposit ratio)



ii) Credit Risk Ratio

Normally, every credit is good at the time it is sanctioned. Most of the bank failures are due to shrinkage in the value of loan and advances. Loan is a risky asset and risk of non-repayment of loan in known as credit risk or default risk. Credit risk ratio measures the possibility of loan going into default. While

sanctioning loans banks measure credit risk involved in the project. Credit risk is calculated by dividing total loan and advances by total assets.

4.2 Statistical Analysis

Some important statistical tools have been used to present and analyze the data for achieving the objectives of this study. Co-efficient of variance, Co-efficient of correlation, Standard deviation, least square, linear trend analysis etc. have been used for the purpose of investment policy analysis.

4.2.1 Karl Pearson's Co-efficient of Correlation Analysis

This statistical tool interprets and identifies the relationship between two or more variables. It identifies whether two or more variables are positively correlated or negatively correlated statistical tool helps to analyze the relationship between these variables an aids the selected banks to prepare appropriate investment policy relating to deposit collection, fund utilization (loan and advances and investment) and profit maximization.

i) Coefficient of Correlation between Deposit and Loan and Advances.

The coefficient of correlation between total deposit and loan and advances used to measure the degree of relationship between these two variables. The main purpose of calculating coefficient of correlation between deposit and loan and advances is to justify whether deposits are significantly used as loan and advances or not. In this analysis, deposit is an independent variable (X) and loan and advances are depended variable. (Y).

Table No 4.16

Coefficient of Correlation between Deposit and Loan and Advances Evaluation Criteria

Banks	r	r^2	P.E.(r)	6.P.E.(r)
SCBNL	0.9236	0.8531	0.0443	0.2659
NIBL	0.9991	0.9981	0.00057	0.03439
Nabil	0.9034	0.8161	0.055	0.3328

Source: Annual Report of SCBNL, NIBL & Nabil

The above tables show that r, $r^{2,}$ 6 P.E. (r) between deposit and loan and advances of SCBNL, NIBL & Nabil for the period of 2005/06 to 2009/010. In the table, mention values are calculated as per 'Appendix-E'.

From the above table, it is clear that the coefficient of correlation between deposits and loan and advances of SCBNL is 0.9236. It means positive relationship between these variables. In the case of SCBNL values of coefficient determination (r^2) is 0.8531; it indicates 85.31% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposits). Similarly, considering the value of 'r' i.e. 0.9236 and comparing it with six times of probable error (P.E. (r)) i.e. 0.2659, than 6.P.E.(r) (r>6 P.E (r)) which means that the value of 'r' is highly significant.

When we observe correlation between total deposit and loan and advances of NIBL, the coefficient of correlation between these variables is 0.9991, which indicates highly positive correlation between them. Whereas, the value of coefficient of determination (r^2) 99.81 % in the dependent variable (loan and advances) has been explained by the independent variable (Deposit) . moreover, considering the times of probable error P.E.(r) i.e. 0.0344, which means that the value of (r) is highly significant.

Similarly, we observe correlation between total deposit and loan and advances of Nabil, the coefficient of correlation between these three variables is 0.9034,

which indicates highly positive correlation between them. Whereas, the value of coefficient of determination (r^2) 81.61 % in the dependent variable (loan and advances) has been explained by the independent variable (Deposit). Moreover, considering the times of probable error P.E. (r) i.e. 0.3328, which means that the value of (r) is highly significant

From the above analysis, we can conclude that there is significant relationship between deposit and loan and advances. It means there three banks are successful in mobilizing their deposit as loan and advances. NIBL has higher value of 'r' which indicates the better position to mobilize the deposit as loan and advances in comparison SCBNL and Nabil.

ii) Coefficient of Correlation Between Total Deposit and Total Investment.

Coefficient of correlation between deposit and total investment measures the degree of relationship between two variables. Here, deposit is an independent variable (X) and total investment is dependent variable (Y). The main purpose of this correlation is to find out whether the deposit is significantly used in proper way or not.

Table No: 4.17

Coefficient of Correlation between Deposit and Total Investment.

Evaluation Criteria

Banks	r	r^2	P.E.(r)	6.P.E.(r)
SCBNL	0.9372	0.8784	0.03668	0.220
NIBL	0.9357	0.8757	0.0375	0.2249
Nabil	0.6931	0.4805	0.1567	0.9404

Source: Annual Report of SCBNL, NIBL & Nabil

The above table shows that r, r2, 6 P.E. (r) between total deposit and total investment SCBNL, NIBL & Nabil are calculated respectively for the period of

2005/06 to 2009/10. In the table, mention values are calculated as per 'Appendix-E'.

From the above table shows that the coefficient of correlation between total deposit and total investment of SCBNL, NIBL & Nabil are 0.9372, 0.9357 & 0.6931 respectively. Is shows the highly positive relationship between these variables. In case SCBNL, considering coefficient of determination, the value of (r2) is 0.8784 this indicates that 87.84% of the variation in the dependent variable (total investment) has been explained by the independent variable (deposit). In the case of NIBL, r2 is 0.8757 which indicates that 87.57% of the variation in the dependent variable has been explained by the independent variable. In the case of Nabil, r2 is 0.4805 which indicates the variation in the dependent variable has been explained by the independent variable. In the case of SCBNL, the value of 'r' is higher than 6 P.E. (r) i.e. 0.9372>0.220. So, it is significant relationship. In the case of NIBL, the value of r is higher than 6 P.E. (r) i.e. 0.9357>0.2249. it is significant relationship. Similarly, in case of Nabil , the value of 'r' is less than 6 P.E (r) i.e. 0.6931<0.9404. Therefore, there is no significant relationship between these variables.

From the above analysis, it can be concluded that in the case of SCBNL and NIBL, there is significant relationship between deposit and total investment. But in the case of Nabil, there is no significant relationship between deposit and total investment. Now it can be said that SCBNL and NIBL has variable policy in mobilizing its deposit as investment.

iii) Coefficient of Correlation between Deposit and Net Profit.

The coefficient of correlation between deposit and net profit is used to measure the degree of relationship between these variables. The purpose of computing 'r' between two variables is to find out whether deposits are significantly used

to obtain return in a proper way or not. Here deposit is independent variable (X) and net profit is dependent variable (Y).

Table No. 4.18

Coefficient of Correlation between Deposit and Net Profit

Evaluation Criteria

Banks	r	r^2	P.E.(r)	6.P.E.(r)
SCBNL	0.9792	0.9589	0.0124	0.0745
NIBL	0.9597	0.9211	0.0238	0.1428
Nabil	0.06027	0.0086	0.1344	0.8064

Source: Annual Report of SCBNL, NIBL & Nabil

The above table shows that r, r^2, 6 P.E.(r) between deposit and net profit of SCBNL, NIBL & Nabil are mentioned for the period of 2005/06 to 2009/10. In the table, mention values are calculated as per 'Appendix-E'.

The above table reflects that the coefficient of correlation deposit and net profit of SCBNL, NIBL & Nabil are 0.9792, 0.9597 and 0.06027 respectively. It means there is highly positive relationship between these variables in case of SCBNL and NIBL, but there is positive relationship between two variables. In case of SCBNL, considering coefficient of determination, the value of r2 is 0.9589, which indicates, that 95.89% of the variation in the dependent variable (net profit) has been explained by the independent variable (deposit). In the case of NIBL, it is 0.9211 whose dependent variable has been explained by the independent variable. Similarly, in the case of Nabil, it is 0.0086, which indicates that 0.86% of the variation in the dependent variable (net profit) has been explained by the independent variable (deposit). The value of 'r' of SCBNL is higher than 6 P.E. (r) i.e.0.9792>0.0754. So it is significant relationship. Similarly, the value of 'r' of NIBL is higher than 6 PE. (r) i.e. 0.9597>01428. So it is significant relationship but the value of 'r' of Nabil is

less than 6 PE (r) i.e. 0.06027<0.8064. Therefore, there is no significant relationship between these variables.

iv) Coefficient of Correlation between Deposit and Interest Earned

The correlation of coefficient between deposit and interest earned measures the degree of relationship between these two variables. Here, deposit is independent variable (X) and interest earned is dependent variable (Y). The objective of calculating Y between two variables is to find out whether deposit is significant used to earned interest in a proper way or not.

Table No. 4.19

Coefficient of Correlation between Deposit and Interest Earned

Evaluation Criteria

Banks	r	r^2	P.E.(r)	6.P.E.(r)
SCBNL	0.9744	0.9495	0.01523	0.0914
NIBL	0.9293	0.8635	0.04116	0.2469
Nabil	0.9100	0.8281	0.5184	0.3110

Source: Annual Report of SCBNL, NIBL & Nabil

The above table shows that r, r2, 6 P.E. (r) between deposit and interest earned of SCBNL, and NIBL & Nabil are mentioned for the period of 2005/06 to 2009/10. In the table, mention values are calculated as per 'Appendix-E'.

From the above table, it is clear that the coefficient of correlation between deposits and interest earned of SCBNL, NIBL and Nabil are 0.9744, 0.9293 and 0.9100 respectively. It means there is highly positive relationship between these variables. In case of SCBNL, considering coefficient of determination, the value of r2 is 0.9495, which indicates, that 94.95% of the variation in the dependent variable (interest earned) has been explained by the independent variable (deposit). In the case of NIBL, it is 86.35% whose dependent variable has been

explained by the independent variable. Similarly, in the case of Nabil, it is 0.5184, which indicates that 51.84% of the variation in the dependent variable (interest earned) has been explained by the independent variable (deposit). The value of 'r' of SCBNL is higher than 6 P.E. (r) i.e.0.9744>0.0914. So it is significant relationship. Similarly, the value of 'r' of NIBL is higher than 6 PE. (r) i.e. 0.9293>0.2469. So it is significant relationship. Similarly, the value of 'r' of Nabil is higher than 6 PE (r) i.e. 0.9100>0.3110.there is significant relationship between these variables.

From the above analysis, we can conclude that there is significant relationship between deposit and interest earned. It means there three banks are successful in mobilizing their deposit. SCBNL has higher value of 'r' which indicates the better position to mobilize the deposit as interest earned in comparison NIBL and Nabil.

v) Coefficient of Correlation between Loan Advances and Interest Paid

The coefficient of correlation between loan and advances and interest paid is used to measure the degree of relationship between two variables. Here loan and advances is independent variable (X) and interest paid is dependent variable (Y). The main objective of computing Y between these variable is whether increases in loan and advances or decrease in the interest paid of the banks.

Table No. 4.20

Coefficient of Correlation between loan advances and interest paid

Evaluation Criteria

Banks	r	r^2	P.E.(r)	6.P.E.(r)
SCBNL	0.9544	0.9109	0.02687	0.1612
NIBL	0.9145	0.8363	0.0494	0.2964
Nabil	0.3696	0.1366	0.2604	1.5626

Source: Annual Report of SCBNL, NIBL & Nabil

The above table shows that, r, r2, 6 P.E. (r) between loan and advances interest paid of SCBNL, NIBL & Nabil are mentioned for the period of 2005/06 to 2009/10. In the table, mention values are calculated as per 'Appendix-E'.

The above table shows that the coefficient of correlation between these two variables of SCBNL, NIBL and Nabil are 0.9544, .9145 and 0.3696 respectively. These indicate that there are positive relationship two variables. The value of coefficient of determination, (r2) of SCBNL, NIBL and Nabil are 0.9109, 08363 and 0.1366 respectively. It means 91.09%, 83.63% and 13.66% respectively. Of variation in dependent variable has been explained. The value 'r' of SCBNL is higher than 6 PE. (r) i.e. 0.9544>0.1612. So, there is significant relationship between loan and advances and interest paid. The value of 'r' of NIBL is also higher than 6 P.E. (r) i.e. 0.9145>0.2964. Therefore there is significant relationship between these variables. Similarly, the value of 'r' of Nabil is less than 6 P.E. (r) i.e. 0.3696<1.5626. Therefore, there is no significant relationship between these variables.

vi) Coefficient of Correlation between Total Working Fund and Net Profit

The coefficient of correlation between total working fund and net profit measures the degree of relationship between these two variables. Here the working fund is independent (X) variables and net profit is dependent variable (Y). The main purpose of computing 'r' between these two variables is to find out whether total working fund is significantly used to earn net profit in a proper way or not.

Table No. 4.21

Coefficient of Correlation between Total Working Fund and Net Profit.

Evaluation Criteria

Banks	r	r^2	P.E.(r)	6.P.E.(r)
SCBNL	0.8883	0.7892	0.0635	0.3814
NIBL	0.8670	0.7517	0.0749	0.4494
Nabil	0.04645	0.002158	0.3009	1.8059

Source: Annual Report of SCBNL, NIBL & Nabil

The above table shows that, r, r2, 6 P.E. (r) between total working funds of net profit of SCBNL, NIBL & Nabil are mentioned for the period of 2006/07 to 2010/11. In the table, mention values are calculated as per 'Appendix-E'.

The above table shows that the coefficient of correlation between these two variables of SCBNL, NIBL and Nabil are 0.8883, 0.8670 and 0.04645 respectively. These indicate that there are positive relationship two variables. The value of coefficient of determination, (r2) of SCBNL, NIBL and Nabil are 0.7892, 07517 and 0.002158 respectively. It means 78.92%, 75.12% and 0.2158% respectively of variation in dependent variable has been explained. The value 'r' of SCBNL is higher than 6 PE. (r) i.e. 0.8883>0.3814. so, there is significant relationship between working fund and net profit. The value of 'r' of NIBL is also higher than 6 P.E. (r) i.e. 0.8670>0.4494. Therefore there is significant relationship between these variables. Similarly, the value of 'r' of Nabil is less than 6 P.E. (r) i.e. 0.04645<1.8059. Therefore, there is no significant relationship between these variables.

From the above analysis, it can be concluded that in the case of SCBNL and NIBL, there is significant relationship between working fund and net profit. But in the case of Nabil, there is no significant relationship between working fund and net profit. Now it can be said that SCBNL and NIBL has variable policy in mobilizing its working fund as net profit.

4.2.2 Trend Analysis

The main objective of this analysis is to analyze or interpret the trend of deposits, loan and advances, investment and net profit of SCBNL, NIBL and Nabil for the period of 2005/06 to 2009/10. And, it also helps to make forecasting for next five years up to 2014/15. The forecast are base on the following assumption.

- The main assumption is that other thing will remain unchanged.
- The banks will run in present position.
- The forecast will be true when the limitation of least square method is carried out.
- The economy will remain in the present condition.
- Central Bank will not change it guideline to commercial banks.

The following trend analyses have been used in this study:

i) Trend Analysis of Total Deposit

This analysis has been made to calculate the trend values of deposit of SCBNL, NIBL & Nabil for five years from 2005/06 to 2009/10 and forecast for five years till 2014/15.

Table No. 4.22

Trend Values of Total Deposit of SCBNL, NIBL & Nabil

(Rs in Millions)

Fiscal year	SCBNL	NIBL	Nabil
2005/06	22,607.68	18,023.82	11,268.64
2006/07	26,102.40	26,478.15	12,337.81
2007/08	29,597.12	34,932.47	13,406.97
2008/09	33,091.83	43,386.79	14,476.13
2009/10	36,586.55	51,841.11	15,545.30
2010/11	40,081.27	60,295.43	16,614.46
2011/12	43,575.99	68,749.76	17,683.62
2012/13	47,070.71	77,204.08	18,752.79
2013/14	50,565.42	85,658.40	19,821.95
2014/15	54,060.14	94,112.72	20,891.11

Source: Annual Report of SCBNL, NIBL & Nabil

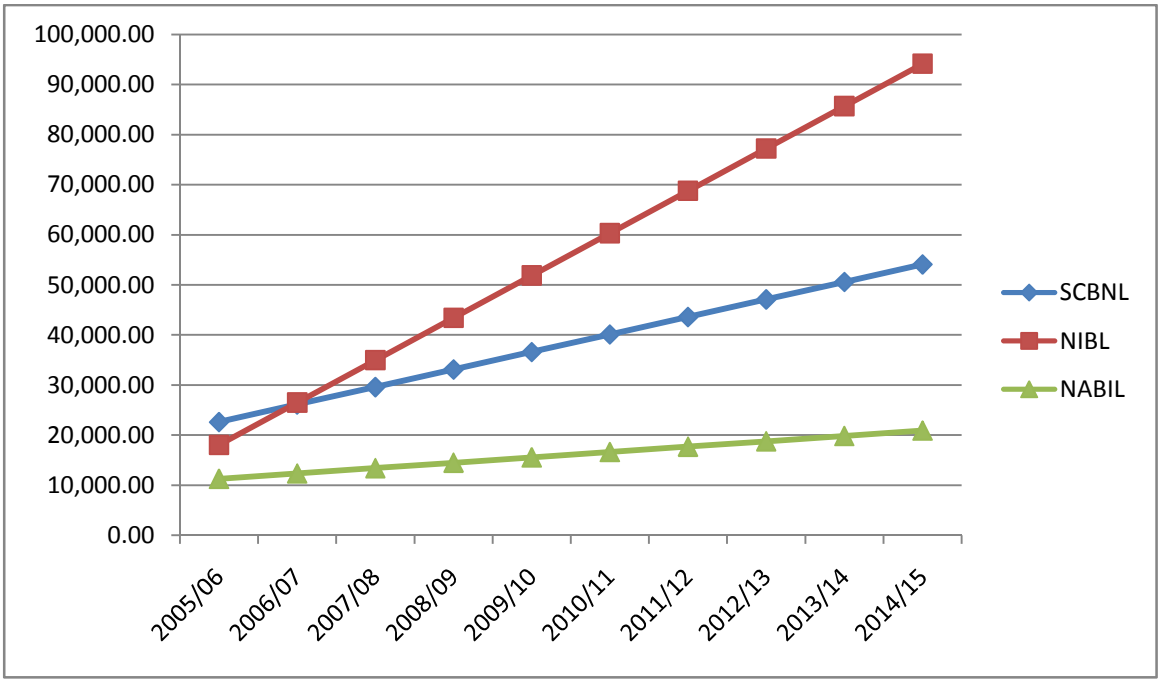
From the above table, the trend values of total deposit of SCBNL, NIBL & Nabil are calculated as per 'Appendix-F'.

The above table shows that total deposits of three banks (i.e. SCBNL, NIBL & Nabil) are in increasing trend. Other things remaining the same, the total deposit of SCBNL, NIBL & Nabil in year 2014/15 will be Rs.54060.14, Rs 94112.72 & Rs.21891.11 million respectively. It means that trend value of NIBL is higher than other two banks.

From the above analysis, it can be said that NIBL total deposit trend will be satisfactory. The above calculated trends values of total deposit of SCBNL, NIBL & Nabil are fitted in the trend lines give as follows:

Figure No. 4.11

Trend Values of Total Deposit of SCBNL, NIBL & Nabil



(ii) Trend Analysis of loan and advances

This analysis has been made to calculate the trend values of loan and advances of SCBNL, NIBL & Nabil for five years form 2005/06 to 2009/10 and forecast for next five years till 2014/15.

Table No. 4.23

Trend Values of Loan and Advances of SCBNL, NIBL & Nabil

(Rs. In millions)

Fiscal year	SCBNL	NIBL	Nabil
2005/06	9,114.64	12,456.72	6,500.96
2006/07	10,836.66	19,790.57	6,904.68
2007/08	12,558.67	27,124.41	7,308.40
2008/09	14,280.69	34,458.25	7,712.11
2009/10	16,002.71	41,792.10	8,115.83
2010/11	17,724.73	49,125.94	8,519.55
2011/12	19,446.75	56,459.78	8,923.27
2012/13	21,168.76	63,793.63	9,326.99
2013/14	22,890.78	71,127.47	9,730.70
2014/15	24,612.80	78,461.31	10,134.42

Source: Annual Report of SCBNL, NIBL & Nabil

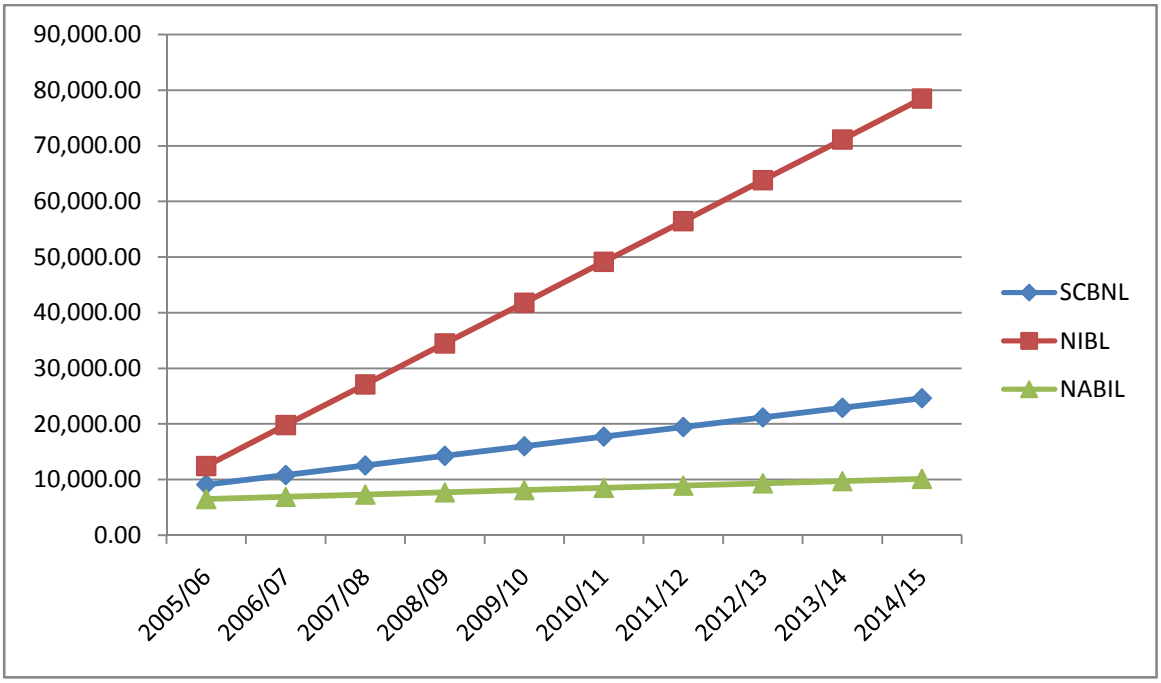
From the above table, the trend values of loan and advances of SCBNL, NIBL & Nabil are calculated as per 'Appendix-F'.

The above table reflects that the trend values of loan and advances are in increasing trend. If other things remain the same, the loan and advances of NIBL & SCBNL is higher than Nabil during this study period.

In conclusion, it is cleared that SCBNL & NIBL utilization of deposit in terms of loan and advance is comparatively lower than Nabil. The above calculated trend values of loan and advances of SCBNL, NIBL & Nabil are fitted in the trend lines given as follows:

Figure No. 4.12

Trend Values of Loan and Advances of SCBNL, NIBL & Nabil



iii) Trend Analysis of Total Investment

This analysis has been made to calculate the trend values of total investment of SCBNL, NIBL & Nabil for five years form 2005/06 to 209/10 and forecast for next five years till 2014/15.

Table No. 4.24

Trend values of Total Investment of SCBNL, NIBL & Nabil

(Rs. In millions)

Fiscal year	SCBNL	NIBL	Nabil
2005/06	11,935.48	5,678.70	1,180.95
2006/07	14,005.57	6,357.08	1,908.43
2007/08	16,075.65	7,035.46	2,635.92
2008/09	18,145.73	7,713.84	3,363.40
2009/10	20,215.81	8,392.22	4,090.88
2010/11	22,285.89	9,070.60	4,818.37
2011/12	24,355.97	9,748.98	5,545.85
2012/13	26,426.05	10,427.36	6,273.33
2013/14	28,496.13	11,105.74	7,000.81
2014/15	30,566.21	11,784.12	7,728.30

Source: Annual Report of SCBNL, NIBL & Nabil

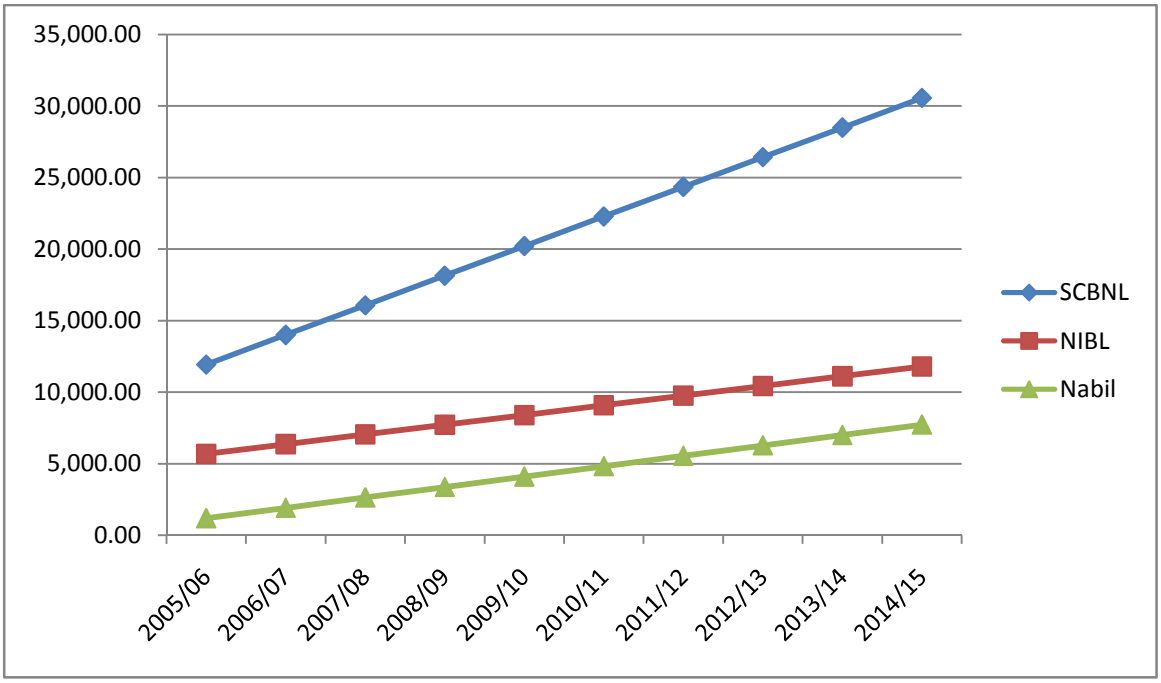
From the above table, the trend values of total investment of SCBNL, NIBL & Nabil are calculated as per 'Appendix-F'.

The above comparative table shows that the trend values of total investment are in increasing trend. If other things remain same, the total deposit of SCBNL, NIBL & Nabil will be Rs. 30566.21, Rs 11784.12 & Rs 7728.30 million respectively. It reflects that the trend values of SCBNL & NIBL are higher than Nabil during this study period.

In conclusion, it can be concluded that SCBNL & NIBL are total investment trend is more satisfactory whereas Nabil has not maintained well investment trend during this study period. The above trend values of total of these banks are fitted in the trend lines givens as follows.

Figure No. 4.13

Trend values of total investment of SCBNL, NIBL & Nabil



iv) Trend Analysis of Net Profit

This analysis has been made to compute the trend values of net profit of SCBNL, NIBL & Nabil for five years form 2005/06 to 2009/10 and forecast for the same for next five fiscal years till 2014/15.

Table no. 4.25

Trend value of Net Profit of SCBNL, NIBL & Nabil

(Rs. In millions)

Fiscal year	SCBNL	NIBL	Nabil
2005/06	357.49	296.80	266.56
2006/07	395.65	519.80	290.76
2007/08	433.81	742.80	314.97
2008/09	471.97	965.80	339.17
2009/10	510.13	1,188.80	363.38
2010/11	548.29	1,411.80	387.59
2011/12	586.45	1,634.80	411.79
2012/13	624.61	1,857.80	436.00
2013/14	662.77	2,080.80	460.20
2014/15	700.93	2,303.80	484.41

Source: Annual Report of SCBNL, NIBL & Nabil

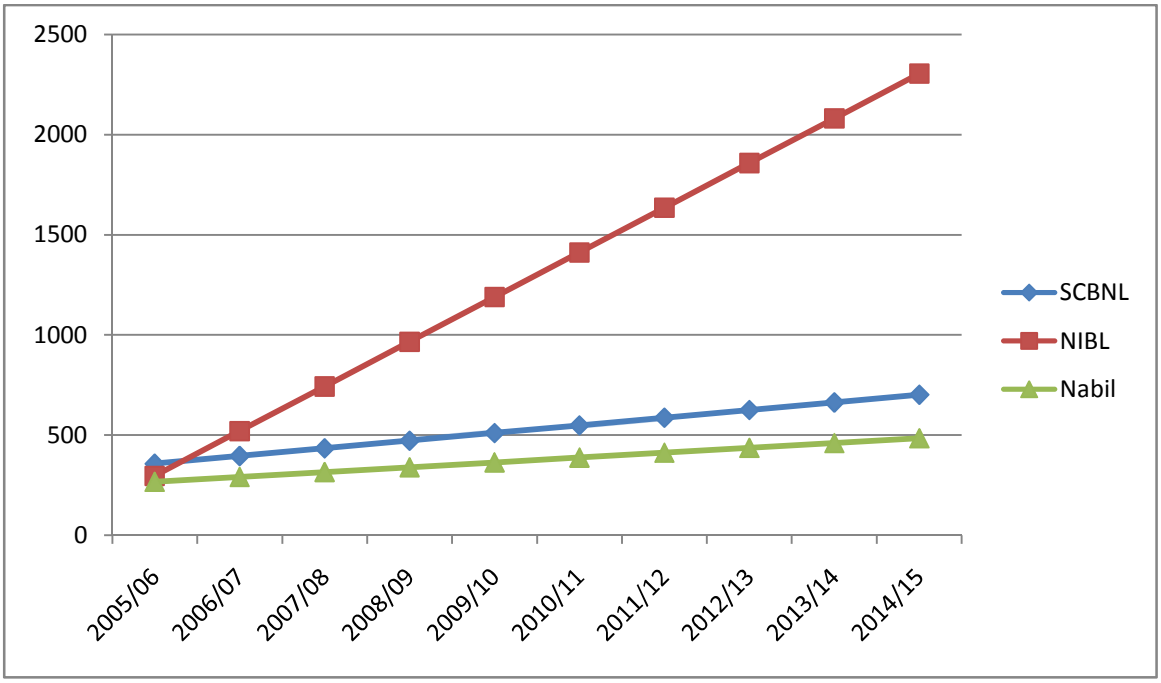
From the above table, the trend values of net profit of SCBNL, NIBL & Nabil are calculated as per 'Appendix-F'.

The above table reveals that the trend value of net profit of three banks is increasing trend. Other things remaining the same, the net profit of SCBNL in 2014/15 will be Rs.700.93 million, which it is lower than NIBL net profit. The net profit of NIBL in 2014/15 will be Rs.2303.80 million, which is higher than other two banks. The net profit of Nabil in 2014/15 will be Rs 484.41 million.

From above analysis, it can be concluded that NIBL seems to have utilize its fund to earn handsome amount of profit in comparison to SCBNL and Nabil. The above given trend values of tables have been fitted in trend lines which are as follows:

Figure No. 4.14

Trend values of Net profit of SCBNL, NIBL & Nabil



4.3 Major finding of the study

From the analysis of data, following major finding have obtained.

- The current ratio of SCBNL over the study period has range between 1.08 (2005/06) to 1.055 (in2006/07); whereas ratio of NIBL has range between 1.074 (2005/06) to 0.358 in 2007/08); whereas ratio of Nabil has range between 1.06329 (2005/06) to 0.76405 (in 2007/08). The above table clearly indicates that the current ratios of the banks are always below the standard i.e. 2:1 but in the case of NIBL in 2007/08 the ratios is 0.358. It is mainly due to decrease money at call and short notice and increase deposits and other A/C. If the mean ratio is observed it is found that the SCBNL is higher than NIBL & Nabil. The S.D. of SCNBL is less than NIBL and Nabil,. Similarly, the C.V. of SCBNL is less than NIBL and Nabil i.e. SCBNL (0.8847%), NIBL (42.389%) and Nabil (13.31%). It

indicates that the current ratio of SCBNL is more consistence than NIBL and Nabil. And we can say that SCBNL has sound ability to meet its short-term obligation.

- The percentage of cash and bank balance to total deposits position of SCBNL, NIBL and Nabil. . It shows that the ratio (CRR) of SCBNL trend is decreasing scale for the period 2007/08 to 2008/09. It has range from 15.34 (in 2009/10) to 8.7602 (in 2006/07) NIBL has fluctuating trend. Similarly, the highest ratio of Nabil is 67.8401 (in 2008/09). It has fluctuating trend.
- The ratio in percentage of cash and bank balance to current assets positions of SCBNL, NIBL and Nabil. It shows that cash and bank balance to current assets ratios of Nabil has increasing trend from 5.2746 (in 2005/06) to 8.2546 (in 2009/10). SCBNL and NIBL has fluctuating trend.

  The mean values of ratios of SCBNL, NIBL and Nabil are 11.82, 14.11 and 6.99 respectively. Standard deviation of NIBL is less than that of other two banks and similarly, C.V. less than other two banks. It shows that NIBL is stable and consistent than SCBNL and Nabil.
- Investment on government securities to current assets ratios of SCBNL, NIBL and Nabil are fluctuating trend. SCBNL has range from 32.326 (in 2009/10) to 3.144 (in 2008/09). Similarly NIBL has range from 17.3441 (in 2007/08) to 6.6177 (in 2005/06). And Nabil has range from 30.9784 (in 2009/10) to 8.3429 (in 2006/07).
- The loan and advances to current assets ratios of SCBNL has increasing trend but NIBL & Nabil are fluctuating trend. SCBNL has range from 63.0777 (in 2007/08) to 76.7250 (2009/10). NIBL has range from 135.4408 (in 2007/08) to 61.6129 (in 2005/06). Nabil has range from 48.3945 (in 2005/06) to 62.4878 (in 2008/09).

- Loan and advances to total deposit ratios of SCBNL are fluctuating trend. Similarly, ratios of NIBL are increasing trend up to 2009/10. And ratios of Nabil are decreasing trend up to 2008/09. Then it increased in 2009/10.
- The loan and advances to total working fund ratios of NIBL is fluctuating trend. Similarly, ratios of SCBNL is increasing trend but the ratios of Nabil is slightly decreasing up to 2007/08 and grow up to in 2009/10. Mean values of SCBNL, NIBL and Nabil are 70.38, 93.67 and 46.03 respectively. Similarly, C.V. of these banks is 6.85, 33.53 and 48.72 respectively.
- We can conclude that NIBL is better to mobilize the funds as loan and advances for the purpose of income generation. SCBNL and Nabil are mobilized the fewer funds that NIBL. But it has higher consistency to mobilize the funds.
- The total investment to total deposit ratio of SCBNL is increasing from 46.74 (in 2007/08) to 56.41 (in 2009/10) then it is decreasing from 55.67 (in 2005/06) to 54.98 (in 2006/07). But the ratios of NIBL are decreasing from 29.97 (in 2005/06) to 15.84 (in 2008/09) and the ratios of Nabil has fluctuating trend. Mean values of SCBNL, NIBL and Nabil are 54.21, 21.97 and 67.27 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 7.022, 24.93 and 148.92 percent respectively.
- The total investment on government securities to total working fund ratio of SCBNL & Nabil banks are increasing trend. SCBNL has range from 19.77 (in 2006/07) to 32.01 (in 2009/10) similarly, Nabil has range from 8.21 (in 2006/07) to 23.37 (in 2008/09) but the ratio of NIBL is fluctuating trend. NIBL has range from 14.46 (in 2009/10) to 29.76 (in 2006/07). Mean values of SCBNL, NIBL and Nabil are 25.47, 18.70 and 19.93 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 20.41, 26.41 and 36.41 percents respectively.

- The investment on shares and debentures to total working fund ratios of SCBNL, NIBL are decreasing trend. SCBNL is decreasing from 0.086 (in2005/06) to 0.0533 (in 2009/10). Similarly, the ratio of NIBL is decreasing up to 2009/10. But Nabil has slightly increasing from 2007/08 up to 2009/10. Mean ratio of SCBNL, NIBL and Nabil are 0.065, 9.936 and 0.12 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 22.21, 35.70 and 11.48 respectively.
- The investment on shares and debentures to total working fund ratios of SCBNL, NIBL are decreasing trend. SCBNL is decreasing from 0.086 (in2005/06) to 0.0533 (in 2009/10). Similarly, the ratio of NIBL is decreasing up to 2009/10. But Nabil has slightly increasing from 2007/08 up to 2009/10. Mean ratio of SCBNL, NIBL and Nabil are 0.065, 9.936 and 0.12 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 22.21, 35.70 and 11.48 respectively
- The return on total working fund ratio, it reflects the ratios of three banks are seen to be in fluctuating trend. SCBNL has 2.598 highest ratios in 2008/09 and 2.2257 lowest ratio in 2007/08. Mean ratios of SCBNL, NIBL and Nabil are 2.46, 2.5437 and 2.00 respectively. And C.V. of these banks is 14.60, 34.8107 and 21.46 respectively.
- Total interest earned to total working fund ratios of SCBNL is in slightly fluctuating trend but the ratios of NIBL is much fluctuating trend. SCBNL has the range from 9.1388 (in 2005/06) to 10.2326 (in 2008/09) and the ratio of Nabil is decreasing up to 2009/10. The ratio of NIBL has range from 7.4682 (in2008/09) to 18.3469 (in 2006/07). The mean ratios of SCBNL, NIBL & Nabil are 9.1358, 9.09 and 6.76 respectively. Similarly, C.V. of SCBNL, NIBL & Nabil are 8.4185, 55.0679 and 7.8527 respectively.
- The total interest paid to total working fund ratios of SCBNL & Nabil are in decreasing trend. SCBNL has 2.9485 highest ratios in 2008/09 and

2.3293 lowest ratio in 2009/10. And the ratio of Nabil has highest ratio 3.3190 in 2005/06 and 1.9161 lowest ratios in 2009/10. Similarly, the ratios of NIBL is decreasing (3.8415) in 2008/09 and increasing from 2009/10. Mean ratio of SCBNL, NIBL & Nabil are 2.5806, 4.5282 and 2.7774 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 9.1336, 44.6338 and 17.9774 respectively

- The liquidity risk ratios of all banks have fluctuating trend. SCBNL has recorded 8.8744 highest ratios in 2008/09 and 5.4837 lowest ratio in 2009/10. NIBL has the highest ratio of 13.3723 in 2008/09 And 8.7602 Lowest ratio in 2006/07 Nabil has the highest ratio of 67.8401 in 2008/09 and 5.1323 lowest ratio in 2007/08. Mean ratios of SCBNL, NIBL & Nabil are 6.9970, 11.8690 & 19.3342 respectively.
- The coefficient of correlation between deposits and loan and advances of SCBNL is 0.9236. It means positive relationship between these variables. In the case of SCBNL values of coefficient determination (r^2) is 0.8531; it indicates 85.31% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposits). Similarly, considering the value of 'r' i.e. 0.9236 and comparing it with six times of probable error (P.E. (r)) i.e. 0.2659, than 6.P.E. (r) (r>6 P.E (r) which means that the value of 'r' is highly significant.
- The coefficient of correlation between total deposit and total investment of SCBNL, NIBL & Nabil are 0.9372, 0.9357 & 0.6931 respectively. Is shows the highly positive relationship between these two variables
- The coefficient of correlation deposit and net profit of SCBNL, NIBL & Nabil are 0.9792, 0.9597 and 0.06027 respectively. It means there is highly positive relationship between these two variables in case of SCBNL and NIBL, but there is positive relationship between two variables

- The coefficient of correlation between deposits and interest earned of SCBNL, NIBL and Nabil are 0.9744, 0.9293 and 0.9100 respectively. It means there is highly positive relationship between these variables.
- The coefficient of correlation between deposits and interest earned of SCBNL, NIBL and Nabil are 0.9744, 0.9293 and 0.9100 respectively. It means there is highly positive relationship between these two variables.
- The coefficient of correlation between these variables of SCBNL, NIBL and Nabil are 0.9544, .9145 and 0.3696 respectively. These indicate that there are positive relationships between two variables.
- The total deposit of three banks (i.e. SCBNL, NIBL & Nabil) is in increasing trend. Other things remaining the same, the total deposit of SCBNL, NIBL & Nabil in year 2014/15 will be Rs.54060.14, R 94112.72 & Rs.21891.11 million respectively. It means that trend value of NIBL is higher than other two banks
- The trend values of loan and advances are in increasing trend. If other things remain the same, the loan and advances of NIBL & SCBNL is higher than Nabil during this study period
- The trend values of total investment are in increasing trend. If other things remain same, the total deposit of SCBNL, NIBL & Nabil will be Rs. 30566.21, Rs 11784.12 & Rs 7728.30 million respectively. It reflects that the trend values of SCBNL & NIBL are higher than Nabil during this study period.
- The trend value of net profit of three banks is increasing trend. Other things remaining the same, the net profit of SCBNL in 2014/15 will be Rs.700.93 million, which it is lower than NIBL net profit. The net profit of NIBL in 2014/15 will be Rs.2303.80 million, which is higher than other two banks. The net profit of Nabil in 2014/15 will be Rs 484.41 million

CHAPTER V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary:-

A commercial bank means the bank. Which deals with exchange currency? Accepting deposit, providing loan or investing in various sectors to do other commercial transactions. Therefore, it is cleared that one of the major function of commercial bank is investment policy. There is not so long history of commercial bank in Nepal. Nepal Bank Ltd. Is the first commercial bank of the country which was established in 1994 B.S. then after, many joint venture banks and commercial banks have been established. In the research work, there has been taken three main commercial banks (i.e. Standard Chartered Bank Nepal Ltd., Nepal Investment Bank Ltd. and Nabil Bank Ltd.). The main objectives of the study were:

- To analyze the investment policy of the sample Banks.
- To evaluate the liquidity position of the sample banks.
- To analyze the empirical relationship between deposit, loans and advances, total investment with other financial variables and compare them between the three banks under study.
- To analyze the trend of deposit utilization towards total investment and loans and advances and its projection for next five years.

The investment decision has played vital role in the banking sectors as well as other organizations. Effective investment decision encouraged to each and every investor to invest their funds on profitable sectors in order to get high return. The study tries to describe the conceptual reviews,

investment, NRB rules regarding fund mobilization of commercial banks, relevant unpublished thesis work. Besides these, personal contact with the banks and with respected teachers has also been made.

The analysis has been divided into two categories i.e. financial and statistical tools. Both tools have been made for comparative analysis and their interpretation. Under financial tools, liquidity ratio, assets management ratio, profitability ratio, risk ratio and growth ratios have been analyzed and interpreted comparatively. Under statistical tools, coefficient of correlation analysis, trend analysis, S.D. and C.V. have been used.

5.2 Conclusion:-

The mean of current ratio of those SCBNL, NIBL and NABIL banks over the five years period is 1.0647, 0.6721 and 0.9228 respectively and it is not consistent over the years. The current ratio of SCBNL over the study period has range between 1.055 (2005/06) to 1.080 (2009/10). Whereas ratio of NIBL has range between 0.358 (2005/06) TO 1.074 (2009/10). And NABIL has range between 0.76405 (2005/06) to 1.06329 (2009/10). It concludes that the current ratios of the banks are always below the standard i.e. 2:1. But in the case of NABIL in 2007/08 the ratios is 0.358. It is mainly due to decrease money at call and short notice and increase deposits and other A/C.

The mean or ratios of NIBL and NABIL is less than that of SCBNL. The S.D. of SCBNL, NIBL and NABIL are 0.0094, 0.2849 and 0.1228 respectively. Similarly, CV of SCBNL, NIBL and NABIL are 0.8847, 42.389 and 13.31 respectively. It can be concluded that SCBNL has better maintenance of its liquidity than NIBL and NABIL.

The cash and bank balance to current ratio of NIBL is better during the study period as the bank shows the ability to manage the deposit

withdrawal for the customers although it has fluctuating trend. The trend position of the bank does not mean that the bank has mobilized its fund in the profitable sectors.

Loan and advances to current assets ratios of SCBNL has increasing trend but NIBL & Nabil are fluctuating trend. SCBNL has range from 63.0777 (in 2007/08) to 76.7250 (2009/10). NIBL has range from 135.4408 (in 2007/08) to 61.6129 (in 2005/06). Nabil has range from 48.3945 (in 2005/06) to 62.4878 (in 2008/09).

The mean value of ratio of Nabil is 54.45, which is less than that of SCBNL and NIBL. This analysis indicates that Nabil use to provide less loan and advances in comparison of SCBNL and NIBL. And its trend of approving loan and advances is also less consistency than of SCBNL and NIBL.

Loan and advances to total deposit ratios of the Nabil and SCBNL are inconsistent in comparison to NIBL.

In conclusion, it is cleared that Nabil and SCBNL are failure to mobilize its total deposits on loan and advances in comparison to NIBL is success to mobilize its total deposits in loan and advances.

Total investment on government securities to total working fund ratio of SCBNL & Nabil banks are increasing trend. SCBNL has range from 19.77 (in 2006/07) to 32.01 (in 2009/10) similarly, Nabil has range from 8.21 (in 2006/07) to 23.37 (in 2008/09) but the ratio of NIBL is fluctuating trend. NIBL has range from 14.546 (in 2009/10) to 29.476 (in 2006/07). Mean values of SCBNL, NIBL and Nabil are 25.47, 18.630 and 15.93 respectively. Similarly, C.V. of SCBNL, NIBL and Nabil are 20.41, 26.41 and 36.41 percents respectively. it can be concluded that SCBNL has higher mean ratios than other two banks. It shows that SCBNL has succeeded to mobilize the funds as investment on government. Its investment policy is also consistent than other two banks.

The correlation analysis shows that there is significant relationship between deposit and loan and advances. Correlation between total deposit and loan and advances of Nabil, the coefficient of correlation between these variables are 0.9034, which indicates highly positive correlation between them. Whereas, the value of coefficient of determination (r^2) 81.61 % in the dependent variable (loan and advances) has been explained by the independent variable (Deposit). Moreover, considering the times of probable error P.E. (r) i.e. 0.3328, which means that the value of (r) is highly significant. We can conclude that there is significant relationship between deposit and loan and advances. It means there banks are successful in mobilizing their deposit as loan and advances. NIBL has higher value of 'r' which indicates the better position to mobilize the deposit as loan and advances in comparison SCBNL and Nabil.

5.3 Recommendations:-

- This recommendation is the final output of the whole study. Generally, it helps to convey correct and good information of the improvement of concerned banks in future. Several analyses have been accrued to reach in this topic. The weakness, inefficiency and improvement of present fund mobilization and investment policy of SCBNL, NIBL and NABIL.

- To achieve success in this competitive banking environment, every bank must utilize their loan and advances. The loan and advances is the main item of the bank in assets side. If it is medicated, it could be the main reason of liquidity crisis and bankrupt. From the analysis, it has been found that loan and advances to total deposit ratio of SCBNL is lower than NIBL and NABIL. So, SCBNL is strongly recommended to follow liberal landing policy, invest more total deposit in loan and advances and maintain more stability on investment policy.

- From the analysis, it has been found that NIBL and NABIL are not investing its amounts on government securities in comparison to SCBNL. Investment on those securities issued by government (i.e. treasury bills, development bonds, saving certificates, etc) are free of risk and highly liquid such as securities yields the low interest rate of particular maturity lowest risk in future and it is more better in regard to safety that other means investment. So NIBL and NABIL are strongly recommended to give more emphasis to invest on government securities.
- A commercial bank should utilize its fund in different sectors like to purchase share and debenture of other financial and non financial companies. From analysis, it has been found that SCBNL's investment on share and debenture to total working fund ratios are lower than other two banks. So, SCBNL is strongly recommended to invest its more funds on share and debentures of different companies.
- As we know that most of commercial banks have provided their services only in Kathmandu valley. They should extend their services towards rural areas and preserve the banking and saving habits of the lower level people of nation. So these banks are suggested not to be surrounded and limited with the interest and staff of big clients (i.e. multinational cos. large industry, NGOs, NIGOs, et.) but extend their product and services in every nook and corner of the country.
- Portfolio management is very much important for every investor. The term investment has included many parts of risk. So the effective portfolio management plays important role to divide total investment in different sectors so that risk is also divided into different sectors. It has been found that these banks have been increasing total investment every year. So these banks are strongly recommended to invest in different sectors and to follow a saying "doing keep all the eggs in the same basket".

- In these competitive banking sectors, a well marketing system plays tremendous role in development of banks. Every commercial bank should be customer oriented. Marketing is the one of the best and effective. Different marketing methods can be applied like advertisement through newspapers, magazine, audio-visual, websites, documentary, etc. not only these but to draw the attentions of customers through new technology like E-banking, internet banking service, SMS banking, ATM, Debit Card, Visa and Master cards, etc. SCBNL, NIBL and NABIL have provided such modem and advance service.
- Economic growth of a country depends upon the high growth of the commercial banks. If the product and services of commercial banks expands all over the nation, the idle money from different areas can be collected and utilized for income generation purpose. So commercial banks should expand their branches not only in urban areas rural area of the nation. But here commercial banks are centralized in the capital. NABIL has succeeded to expand more branch office in comparison to other two banks. So these banks are recommended to expand their branches and provide effective banking product and services.
- Here, the researcher has used 5 fiscal years of secondary data, so further researcher are suggested to use more than 5 fiscal year and to use not only secondary data but also primary data. The researcher has used only selected commercial banks (i.e. SCBNL, NIBL and NABIL) and limited financial and statistical tools in this study. But the further researchers are recommended to study more than two banks and apply more useful financial and statistical tools.