CHAPTER - ONE
INTRODUCTION

1.1 Background of the Study

Integrated and steady development of the country is possible only when competitive banking service reaches nooks and corns of the country. Commercial banks occupies quite an important place in the framework of every economy because it provides capital for the development of the industry, trade and business investing the saving collected as deposits. Besides these, commercial bank renders a numerous services to their customer in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world.

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

Commercial banks are the heart of financial sector, which occupy important place in the framework of the economy. They hold deposits of people, government and other business units. They make funds available through their lending and investing activities to borrower's individuals, government and business units. By doing so, commercial banks provide capital for the development of the industry, business and services. Commercial banks make sound investment in various sectors of the economy, which boost quality and quantity of investment as well as achieve its own objective of profit maximization. Thus, well formulated and sound investment policies coordinated and planned efforts accelerate the pace of economic growth (Bhandari; 2003: p, 5)

Credit affects the overall development of the country. The volume of credit is directly related with the place of development of country, itself. Lending is most fundamental function of bank. The quality of loan, quality of borrower and quality of securities determines the health of any banker. The efficiency of banker lies in how it multiplies the deposit of depositors' safety of funds, liquidity of funds, purpose security of loan, profitability, spread of loan portfolio and compliance with national interest are some of the principles that the banker should follow while granting loan. Expansion of bank credit is followed by increase in production, employment, sales and prices. In a developing economy, the banks offer more and more credit and increase the resources of the industries, thereby causing faster economic development; banks play a decisive role in the industrial development of the country. The flow of credit is very much like smooth and uniform through out the organs of body credit should flow steadily and evenly through various sectors of the economy.

Nepalese money market and lending procedure is very much affected by mass poverty, landlocked position, low social development, political instability and frequent changing policies of the government. Besides these international market plays a vital role while conduct a business in these days so banks and other organizations not only concentrate on their country but the outside world also.

Investment is primary factor for economic development of any country. Investment refers to as using present money to get long term benefit. Investment in its broadest sense means the sacrifice of current money for future money. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward or result of sacrifice comes later and the magnitude is generally uncertain. Time and risk are predominates for investment. Such as Investment in government bonds time is predominates whereas in common stock time and risk both are important.

Investment also refers to the expenditure of funds for capital goods such as factories, farm, equipment, livestock and machinery. Capital goods are used to produce other goods or services. The main source of investment is saving. A distinction is often made between investments and saving. Saving is defined as forgone consumption; investment is restricted to real investment of the sort that increases national output in the future. This definition classified investment as real and financial investments. Real investment generally involves some kind of tangible assets such as land, machinery, or factories.

Financial investment involves contracts written on pieces of paper, such as common stock and bonds.

Profitability is a deviation of the term profit, which explains the ability to make the profit. Profit is primary a measuring rod of a success of a business enterprises. Profit is essential for the survival of the business. It is the difference between revenue generated and expenses occurred over the period of time but the term profit has several different interpretations. It is a basic test of the performance of any business concern. Without profit a firm could not attract the outside capital. Moreover, the owners and creditors would become concerned about the company's future and attempt to recover their funds. Owner creditors and management pay close attention for boosting profit due to the great importance placed on earning the market place. Profitability is a technical term, used to compare performances analysis of different trading systems or different investments within one system. This is computed for each system or investments being compared over the same period long enough to include significant "ups" and "downs". So analysis of the profitability of the business is very essential which can be used to measure the overall efficiency of the business.

Profitability of the business can be analyzed through the financial analysis which refers to the assessment of the viability and stability of the business. Profitability of a company is usually based on the income statement. A properly conducted profitability analysis provides invaluable evidence concerning the earnings potential of a company and the effectiveness of management. While analyzing profitability different profitability ratios are calculated. Profitability ratios provide a definitive evaluation of the overall effectiveness of management based on the returns generated on sales and investment. The most widely used profitability measurements are profit margin on sales, return-on-investment ratios, and earnings per share.

1.2 Profile of Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited (earlier known as Nepal Grindlays Bank ltd.) came into existence in 2043 (1987) as a joint venture between ANZ Grindlays and Nepal Bank Ltd. After acquiring of the Grindlays operation in the region by standard chartered in July 2001, it has become a subsidiary of Standard Chartered London, which holds 75% of shareholdings in the company with remaining 25% held by the public shareholders.

The bank has successfully completed 24 years of its operation in Nepal in 2010. The global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal.

The Bank believes- “A satisfied customer is our most valuable award”. The Bank has been the pioneer in introducing customer focused products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti- Money Laundering policy and applied the Know Your Customer' procedure on all customer accounts.

1.3 Focus of the Study

Banks have today gained paramount trust of the public. Banking industry offers a wide range of services addressing the needs of public in different walks of life. At present, a large number of banks are operating in Nepal. Naturally, they are rendering a wide range of services. They are trying to keep up pace with the changes taking place in the world. But quantity does not count for quality. The financial institutions of all classes ‘A’ to ‘D’ are increasing every year. In a small economy like Nepal, it is a question of great concern as to how so many banks are surviving and reaping profit. The concern is not only about these days but also the sustaiity of the operating banks in future days also. Therefore, this study will try to concentrate on the strong private sector banks of Nepal, i.e., Standard Chartered Bank Nepal Limited (SCBNL). It will focus on the profitability and investment.

1.4 Statement of the Problems

In developing countries like Nepal commercial banks have been facing several challenges, some of them are arising from lack of smooth functioning of the economy, some of them are arising due to confused policy and many of them are arising due to default of the borrower. Liberalization in the economy has produced some degree of opportunities and more than it had created chaos and uncertainty. The liberalization of financial sector demands a new technology of lending to cope with the risky pressures on the profitability of the banks and financial sector institutions.

This study has tried to answer the following research questions.

- What is the position of commercial banks regarding investment policy and deposit collection and mobilization?

- What is the trend and their projection regarding investment and deposit of SCBNL?
- What is the investment sector of selected commercial banks?
- What is the impact of investment policy on profitability?

1.5 Objectives of the Study

The main objective of the present study is to analyze the Impact of investment on profitability of SCBNL and comparison of such between themselves. The study focuses whether it is backward or forward in investing its fund efficiently in industry average. The specific objectives of the study are given below.

- To find out the investment, deposit and profitability of SCBNL.
- To analyze the relationship between investment with Profitability and comparison between them.
- To find out the different types of profitability ratios and interpret them.
- To give the recommendation and suggestions for the betterment of the selected commercial banks.

1.6 Significance of the Study

The present study is to find out the investment policy and practice of the commercial bank in Nepal. Any bank can perform its lending behavior only when it has sufficient amount to lend it. So first, it should be able to collect sufficient amount in the form of deposits from different sectors.

In Nepal, there are very few resources, which have been made in the area of investment policy of commercial banks. Due to this reason, only few books and resources dealing with this aspect are found but are not sufficient. Whatever the research in the area of investment policies have been made are also not in depth and detailed.

Investment policy is one of the essential and the main functions where the whole banking business is related thus, the study on the major commercial banks and especially in their lending and investment policies carry a great significance to the shareholders of banks, to the banking professionals, to the students and teachers of banking and commerce. It is expected that this study will provide some relevant findings, which may help the bankers, professionals and interested readers too.

This study will be helpful to management of the selected commercial bank of Nepal to make effective profit planning strategy for future. This also will be valuable for researcher, students who want to investigate into the investment and profitability of the selected commercial bank of Nepal. It will also be important to the bank, investors and stakeholders concerned.

The study enlightens the shareholders, depositors, creditors, NRB, Tax office etc. about the financial performance of the bank.

The financial agencies including stock exchanges and stock traders interested in the performance of the bank as well as the customer, depositor and debtors can identify the better bank to deal with in terms of profitability, safety and liquidity.

1.7 Limitations of the Study

This is simply a partial requirement of MBS program. There are some limitations, which weaken the generalization e.g. inadequate coverage of industries, period taken, reliability of statistical tools used and their variations. The following are the major limitations of the present studies:

- This study is concern only with the investment and profitability of SCBNL.
- The whole study is based on the secondary data collected from the banks.
- The study covers the analysis of only five years period from 2063/64 to 2067/68 and analysis is concerned in some managerial, financial and accounting aspects and it does not cover the whole areas of the subjected banks.
- Some of statistical as well as financial tools of comparison and analysis should be used in the study. Hence, the drawbacks and weakness of those tools may have an adverse effect on the outcome of the study.

1.8 Organization of the Study

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

Chapter - One: Introduction

This chapter comprises of general background, focus of the study, brief profile of the banks under study, significance of the study, objectives of the study, limitations of the study and organization of the study.

Chapter - Two: Review of the Literature

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

Chapter - Three: Research Methodology

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

Chapter - Four: Presentation and Analysis of Data

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

Chapter - Five: Summary, Conclusion and Recommendation

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

Similarly, at the front part of the study declaration, acknowledgement, table of contents, list of table and figure and abbreviation are presented.

CHAPTER - TWO

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic impact of investment on profitability. The purpose of reviewing of literature is to develop some expertise in one's area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously

2.1 Conceptual Framework

2.1.1 Concept of Commercials Banks

Commercial banks are those, which pool together the saving of the community and arrange them for the productive use. They accept deposits from the public and provide same deposits to the public as loan and advances. In fact, they circulate the money and create credit. The concept of the commercial banks made the economy strong. And now it's playing important role to make country economically strong. According to the Black's law Dictionary "Commercial Bank" means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time-deposit boxes, and to provide similar services. Commercial Bank means a bank which operates currency, exchanges transactions, accepts deposits, provides loan, perform, dealings, relating to commerce except the banks which have been specified for the co-operative, agricultural, industry of similar other specific object (Bhandari, 2003:5).

Hence, the term commercial bank is used taking meaning of all banking habits. That's why joint stock banks, member banks, and credit banks are frequently used interchangeably with the term commercial banks. But it is different than central bank. Central Bank cannot be interchangeable with other banks. In this way, a commercial bank is different from a central bank. While the primary objective of a commercial bank is the maximization of profit the central bank is primarily concerned with the effects of its operations on the functioning of the economy. Moreover, while there may certainly be many competing commercial banks, there exist only one central bank in a country. While the commercial banks compete against each other, the central bank comes out if any;

ordinary banking business for the general public, incomplete if confines itself mainly to controlling the operations of the banking system in country.

2.1.2 Function of Commercial Banks

Banks can be defined according to the functions they perform. A bank is established with the prime objective of profit maximization. To achieve this, the bank carries out functional activities, principally, commercial banks accepts deposits, provide loan, primarily to business firms thereby facilitating the transfer of funds in the economy. Although, in the yester years banks were viewed as acceptor of deposits then provider of loan, but modern commercial banks have to perform overall development of trade, commerce, industry, agriculture including supports for priority and deprived sectors. The growing bank needs and habits of people and competitive environment has made the banking sector challenging and their operation cannot be underemphasized in present context of market globalization. Hence, a bank is a commercial institution licensed as a taker of deposits, concerned mainly with the making and receiving payments on behalf of their customers, accepting deposits, creating money and making short-term loans to private individuals, companies and other organization.

Although profit maximization is a major objective of commercial bank, to achieve this objective commercial bank performs various functions under the mandatory rules and regulations and directives of NRB and the Banking and financial institution act 2063.

1. **Accepting Deposits: -** Accepting a deposit is the most important function of commercial banks. Commercial banks collect money from those who want to deposit in different types of accounts such as:
   - Fixed Deposit Account
   - Current Deposit Account
   - Saving Account
2. **Advancing of Loans: -** Commercial banks provide the loans required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In this way bank creates credit facilities. It provides loans from various procedures in different form such as:
   - Overdraft
   - Cash Credit
   - Direct loan with collateral

- Discounting of bills of exchange
- Loans of money at call and short notice

3. **General Utility Functions: -** Commercial banks also perform general utility functions such as:
   - Issuing of letter of credit to its customers.
   - Issuing of bank drafts and travelers cheque etc., for transfer of funds from one place to another.
   - Dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange.
   - Serving as referred to the financial standing and credit worthiness of its customers.
   - Underwriting loans to be raised by public bodies and corporations. Providing safety vaults of lockers for the safe custody of valuables and securities of the customers.
   - Acting as a trustee and executing the will of the deceased.
   - Remittance of money
4. **Agency Function: -** Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as:
   - Collection of customer's money from other banks
   - Receipt and payment of dividend, interest.
   - Security brokerage service.
   - Financial advisory service.
   - To underwrite the government and private securities.

2.2 Concept of Investment

Investment is a present sacrifice for the sake of future benefits. Therefore, investment always involves risk. Present decision about selecting the best alternatives should always take the future risk into consideration. The few alternatives of investment in the past have now expanded into hundreds. Hence, the complexity of investment has also been increasing day by day. To select the best alternative and to construct an efficient portfolio, a wise analysis and decision is required. Before making any decision on investment we must be well informed about the factors, which affect investment. Investment decision related with saving, capital formation, capital market, risk involve with it, return, inflation etc.

Investment, in its broadest sense, means the sacrifice of current rupees (dollars) and resources to the sake of future rupees (dollars) and resources. In other words, it is a commitment of money and other resources that are expected to generate additional money and resources in the future. Such a commitment takes place in the present and is certain to occur but the reward comes in the future and always remains uncertain. Therefore, every investment entails some degree of risk.

Investments are made in assets. Assets generally are two types: real assets (Land, Building, Factories etc) and financial assets (Stock, Bonds, T-Bills etc). These two types of investment are not competitive but complementary, highly developed institution for financial investment greatly facilitating real investment (Bhattari, 2005: p, 48).

Country's growth rate is largely depending on investment and commercial banks are key for investing funds in productive works as they deal with money. They collect funds and utilize it in a good Investment, which is not an easy task for them. Therefore an investment of funds may be the question of life and death for the bank. They must have effective and good investment policy to exist in this world of competition.

Bank portfolio (loans and investments) of commercial banks has been influenced by the variable securities rates Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of NRB. So the investments are not made in professional manner. Investments planning of the commercial banks in are not made in professional manner. Investment planning of the commercial banks in Nepal has not been found satisfactory in terms of profitability, safety, liquidity, productivity and Social responsibility. To overcome this problem, she has suggested, commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects (Bhalla, 2004: p, 79).

Total risk of security can be divided into systematic and unsystematic components. Systematic risk is risk that cannot be diversified away for it affects all securities in the market. Unsystematic risk is unique to the particular securities and can be eliminated with efficient diversification. If the assumption of the CAPM or APT factor model holds this risk does not matter to investors. As a result, diversification of assets by a company in an effort to reduce volatility would not be a thing of value.

Inflation is a major concern for investors. But and large, people have come to fear significant inflation, particulars when it is unpredictable. Capital rationing is likely to result in investment because depreciation charges do not reflect replacement cost and firm’s taxes grown at a faster rate than inflation. In estimating cash flows one should take account of anticipated inflation. Otherwise a bias arises in using an inflation-adjusted required return and non-inflation-adjusted cash flows and there is a tendency to reject some projects that should be accepted.

From the definition given above, it is clear that an investment means to trade a known rupee amount today for some expected future stream of payments or benefits. A commercial bank must always mobilize its funds and other deposits to profitable, secured and marketable sector so that it earns a handsome amount of profit as well as it should be secured and can be converted into cash as per the requirement.

The investment process describes how an investor should go about making decisions with regard to what marketable securities to invest in, how extensive the investment should be, and when the investment should be made. A five-step procedure for making these decisions forms the basis of the investment process (Francis, 2003: P,128)

- Set investment policy
- Perform security analysis
- Construct a portfolio
- Revise the portfolio
- Evaluate the performance

2.2.1 Principle of Sound Investment Policy

It is universally known fact that the most important problem in banking administration is that of investing its deposits and paid up capital in various forms of earning assets. This is also known as portfolio policy. The bank’s portfolio being nothing but an arranged and digested scheme of its assets.

The funds of banks are generally invested either in those assets, which are non-profitable, or those, which are profitable. Non-profitable assets include cash reserve and the dead stock and profitable assets includes call money, investment, advances and loan, cash credits, overdrafts, discounting of bills and acceptances etc.The guiding principle of sound investment is as follows:

1. **Safety:-** Safety would be the first guiding principle of a bank, so far as its advances and investment are concerned, because the very existence of a bank depends on the safety of its outstanding, which should never therefore be sacrifice to the profit-earning capacity of its advances. This has led people to believe that a bank will never advance any loan, unless it is fully secured. Such is no doubt the ideal conception of banking, but as a result of its competition from other banks, every bank has to grant a certain number of loans to its customers against their personal security. In such cases, the bank uses direction and never lends a sum obviously beyond its customer's resources. Consequently, to maintain a banking concern in sound condition should be above suspicion. Scrupulous care should be taken that the funds lent out are not subject to any risk of being lost.
2. **Liquidity:-** While making advances and investments, the bank must see that the money it is lending is not going to be locked up for a long time, which would make its loans and advances less liquid and more difficult to realize in cases of emergency. A bank can afford to lend funds only for a short period, as its liabilities are either payable on demand or at short notice. If it makes advances for long term there is no likelihood of it being able to recall such loans in time to meet the demands of its depositors.
3. **Diversification of Risk:-** It is also necessary to remember that a prudent bank must avoid investing all its funds in meeting the needs of any one industry or any one group of industries for considerations of self-interest as well as the larger public good. The imprudence on putting one's own eggs into one basket cannot be too often reiterated. Therefore bank should invest their funds in different field than investing in same field or sector.
4. **Return:-** Another important factor that it determines the decision of the bank whether or not to grant loan or to make an Investment will depend upon the answer to the question whether or not it will get a fair return on its investment. A bank always aims at securing maximum profits for its share- holders. The difference between borrowings and lending rate constitutes the gross profit and no bank ordinarily will think of an advance without a satisfaction margin of profit.

5. **Marketability:-** The investments of the bank should be such as can be easily sold and realized in cash readily. Loans given against commercial paper representing goods in transit or against stocks and shares of well-known companies are easily realizable while loans given against immovable property cannot be easily realized. The bank must make sure that the securities, in which he invests his funds, are easily saleable without appreciable loss.
6. **Stability of Price:-** The primary object of a bank in buying securities is not to gain by a possible rise in their prices, which is the aim of a speculating dabbler. Therefore the price of the securities should be liable to wide fluctuations.
7. **Stock Exchange Securities:-** This consists of government securities as well as securities of the joint stock companies. These securities are easily and quickly realizable. As they are quoted on the stock exchanges so their values can be easily ascertained. In case of need, a bank can either sell them or pledge them without any hesitation. But before accepting them, the bankers should see that the shares of the companies are not partly paid, that sufficient margin has been kept and they are negotiable. Speculative shares should not be accepted (Bhalla, 2004: p, 109).

2.2.2 Investment Alternatives

There are various alternatives for investors:

<table>
<tr><td>1. Equity Securities</td><td colspan="2">• Common Stock
• Preferred Stock</td></tr>
<tr><td>Short term debt securities</td><td colspan="2">• Negotiable certificates of deposit
• Commercial paper
• Banker’s acceptances
• Treasury Bills</td></tr>
<tr><td rowspan="4">2. Intermediate and Long Term Debt Securities</td><td>• Government securities</td><td>➢ Treasury Notes
➢ Treasury Bonds
➢ Saving Bonds</td></tr>
<tr><td colspan="2">• Agency securities</td></tr>
<tr><td>• Municipal Securities</td><td>➢ Revenue bonds
➢ General obligation bonds</td></tr>
<tr><td colspan="2">• Corporate bonds</td></tr>
<tr><td>3. Hybrid Securities</td><td colspan="2">• Convertible preferred stock</td></tr>
</table>

	• Convertible bonds
4. Derivative securities	• Options • Community futures • Financial futures • Options in futures • Rights • Warrants
5. Real Assets	• Precious Metal • Real State • Collectibles
6. International Investment	• Multinationals Corporations • Foreign stocks traded on all local exchange • American Depository Receipts (ADRs
7. Other Investment Alternatives	• Pension Funds • Mutual funds • Closed –end Companies

Source: Bhalla, 2004: p, 97

2.2.3 Investment Uncertainty (Risk)

Every investment involves uncertainties that make future investment returns risky. Some of the sources of uncertainty that contribute to investment risk are as follows:

1. **Interest Rate Risk:-** It is defined as the potential variability of return caused by changes in the market interest rates. In more general terms, if market interest rates rise, then investment values and market prices will fall, and vice versa. The variability of return is the result of change in interest rate. This interest rate risk affects the prices of bonds, stocks, real estate, gold, puts, calls, future contracts and other investment as well.

2. **Purchasing power Risk:-** It is the variability of return an investor suffers because of inflation. The rate of inflation is measured by using a consumer price indeed (CPI). The percentage change in the CPU is a widely followed measure of the rate of inflation.

3. **Bull-Bear Market Risk:-** Bull-Bear market risk arises from the variability in market return resulting from alternating bull and bear market forces. When a security index rises fairly consistently form a low point called a trough, for a period of time, this upward trend is called a bull market. The bull market ends when the market index reaches a peak and starts a downward trend. The period during which the market declines to the next trough is called bear market.

4. **Default Risk:-** It is the portion of an investment's total risk that results from changes in the financial integrity of the investment. Default risk is the variability of return that investors experience as a result of changes in the creditworthiness of a firm in which they invest. Investor losses from default risk usually result from security prices falling as the financial integrity of a firm weakness. By the time an actual bankruptcy occurs, the market prices of the troubled firm's securities will already have declined to near zero.

5. **Liquidity Risk:-** It is that portion of an assets total variability which results from price discounts given or sales commissions paid in order to sell the asset without delay. Perfectly liquid are highly marketable and suffer no liquidation costs. Liquid assets are not readily marketable – either price discounts must be given or sales commissions must be paid, or both of these costs must be incurred by the seller. Hence, the more liquid an asset is, the larger the price discounts and/or commissions which must be given up by the seller in order to affect a quick sale.

6. **Callability Risk:-** Some bonds and preferred stocks are issued with a provision that allows the issuer to call them in for repurchase. The portion of a securities total variability of return that derives from the possibility that the issue may be called is the callability risk. Callability risk command a risk premium that comes the form of a slightly higher average rate of return. This additional return should increase as the risk that the issue will be called increases.

7. **Convertibility Risk:-** Convertibility risk is that portion of the total variability of return from a convertible bond or a convertible preferred stock that reflects the possibility that the investment may be converted into the issuer's common stock.

8. **Political Risk:-** The portion of an asset's total variability of return cased by changes in the political environment that affect the asset's market value. Whether

the changes that cause political risk are sought by political or by economic interests, the resulting variability of return is called political risk.

9. **Industry Risk:-** An industry may be viewed as a group of companies that compete with each other in a market of homogenous product. Industry risk is that portion of an investment's total variability of return caused by events that affect the products and firms that make up an industry. The stage of the industry's life cycle, international tariffs and/or quotas on the products produces by an industry, product or industry related taxes; industry wide labour union problems, environmental restrictions, raw material availability, and similar factors interact and affect all the firms in an industry simultaneously. As a result of these commonalities, the process of the securities issued by competing firms tends to rise and fall together.

2.3 Profit & Profitability

Generally profit is defined as the excess of revenue over cost. In other words, profit is the residual income, which is equal to sale proceeds minus costs. Profit is the resources left to the firm for future growth and explanation or reward to be distributed to the entrepreneurship in the form of dividends etc. In a simple term, profits mean the residual balance of earning expected to be available with the firm that is obtained after deducting entire expenses, costs, charges and provision from total revenue of a period of time.

It is the lifeblood of each type of business. Every business organization should earn profits to survive and grow over the long period of time. Obviously, organization will have no future if it is unable to make reasonable profit from its operation. As a matter of fact, the overall efficiency of an organization is reflected in its profits. Profits to the managements are the test of efficiency and a measurement of control: to the owners, a measure of worth of their investment; to the creditors, the margin of safety to the employees; a source of fringe benefits to the Government, a measure of fixed paying capacity and the basis of legislative action; to customers, a hint to demand for better quality and price cuts; to a bank, less burden some source if finance existence and finally to the country, profit are index of economic progress. Thus, if an organization fails to make profit, capital invested erodes and if this situation prolongs it ultimately cease to exist.

Profit has been universally recognized and accepted as a measure of business efficiency. Thus, the larger the profits, the more efficiency and profitable the business organization is deemed to be. This criterion has the greater advantage that it provides a common standard of measuring the efficiency if different bank. Regarding this, Laxmi Narayan clearly states, “Profit is the simple, convenient and the most popular yardstick of jugging the efficiency of private and public business enterprises. Profit helps in judging the overall efficiency and is easy to calculate. Even through profit maximization, unlike private enterprise, is not objective of public enterprises, yet profit services as a well accepted criterion for the judging the overall efficiency of public enterprises too” (Narayan, 1980 : P, 260).

The profit is the ultimate measure of effectiveness. A profitable company is likely to offer not only security of employment but also promotion prospects, job opportunities and the intense personnel motivation that comes from being associated with success. John Argent observes, “Profit is the barometer of the success of business. It is, indeed, a magic eye that mirrors all aspects of entire business organizations including the quality output.” (Argent, 1968: P,34)

The term ‘profitability’ is composed of two words profit and ability. It reflects the capacity of a business organization to earn profit. It is also referred to as earning capacity or earning power of the concern investment. Thus, the term profitability may be taken as the ability to earn profit. According to Howard and Upton, “The word profitability may be defined as the ability of a given investment to earn return on its use.”

It may be mentioned that the term ‘profitability’ is distinguished from the word profit. Profit refers to the absolute quantum of profit whereas profitability alludes to the ability to earn profit. The former is an absolute measure in itself while the latter is a relative one. According to W.M. Harper, the profitability is a relative measure. It indicates the most profitable alternative. The profit, on the other hand is an absolute measure. It indicates the overall amount of profit earned by transaction. As the profitability is the relative measure, it is used to judge the degree of operational efficiency of management. Furthermore, it is essentially employed to measure the relative efficiency of different trading systems or different investments within one system. In the profitability analysis, the profit making ability of an organization is measured in terms of size of investment in it or its sales volume. Such an analysis of profitability reveals how particularly such a position stand as a result of transactions made during the year. It is particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon.

The state of profitability is a variable thing like the temperature and humidity of a day. The determination of profitability by an accountant or analyst is very much similar to temperature reading and study of humidity by a meteorologist. A meteorologist records the weather on daily basis with an intention to forecast its future prospects. Likewise, an analysis records yearly profit of a bank with a view to make prediction of the future prospects.

The purpose of profitability measurement is to see whether a bank has effectively used its resources to achieve its profitability objectives. The profitability objectives refer not to the maximum profit the business can produce but to the minimum it must produce. The minimum profit is the profit at the minimum rate required for the desired type of investment in the bank. However, there must not be enough profit to yield the capital in the market rate of return on money, which is already sunk in business, but also to provide additional capital needed to cover the cost of staying in business.

2.3.1 Meaning of Profit

Profit, from Latin means “to make progress”. It is defined in various ways. In economics, profit is the concept of reward of the entrepreneur for risk taking and management. In business operations, it is the gain from manufacturing, merchandising and selling operations after all expenses are met. Since profit is added to net worth, it may be measured by the increase in net worth over that of the previous accounting period. The amount of concern’s profit thus may be determined not only through the profit and loss statement but also by the comparison of the earned surplus or net worth in the balance sheet which, however, is the residue of profits after dividends and any other appropriations and does not reveal details of sources of income and expenses, which are found in profit and loss account. In speculative transactions, profit is the excess of the net selling price over the costs (including all charges) of the security or commodities traded in.

Profit is a motivating factor behind many managerial activities. Much has been written about the role (as opposed to the method of calculation) of profit. Profit plays three roles in the capitalistic society. Profit is the financial reward of risk taking; profit is the financial reward for having monopoly power; profit is the financial reward for the efficient management. The promise of profit provides a strong incentive to owners and managers to act efficiently. "Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retained earning. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors" (Robinson, 1981: P, 22).

Account and economics are two disciplines in which profit is viewed in different concept. Pure economic profit is the increase in wealth that an investor has from making an investment, taking into consideration all costs associated with that investment including the opportunity cost of capital. Accounting profit is the difference between retail sales price and the costs of manufacture. A key difficulty in measuring either definition of profit is in defining costs. Accounting profit may be positive even in competitive equilibrium when pure economic profits are zero.

In economics, a firm is said to be making an economic profit when its revenue exceeds the total (opportunity) cost of its inputs. According to Adam Smith (The father of economics), "Profit is the sum remaining after the payment of all wages (wage) in economics includes payments to officers of corporations, to proprietors, to partners and to farmers, as well as to what we today term(labor), and rent on the unimproved value of land, as the return to capital."

Profit in the accounting sense is the net figure of difference between all types of measurable revenues and all measurable costs. In accounting, profit is expressed only on explicit and measurable accounting terms and on the book value basis. However, in economics, profit is measured in the realizable terms. "Profit in the accounting sense is the excess of revenue receipts over the costs incurred in producing this revenue. This concept of profit is also known as residual concept. But, in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits." (Charles, 1999: P, 122) As a matter of fact over the years there has been quite an evolution as to what particular items should be deducted from gross income to arrive at an "accounting" profit. Thus, "accounting" profit is a concept of man-made legislation, of the courts, of the Security of Exchange Commission, of accounting organizations; a concept, which has always been in evolution. "Economic" profit on the other hand, is a concept of a natural law of economics, and like the law of gravitation has remained and will remain unchanged over the ages. However, the profit under discussion is concerned with accounting profit, which in a simple language, is the positive and fruitful difference between two revenues and total expenses over a period of time, Multiple meaning of the word "profits" have always been troublesome. Accountants have made energetic efforts in recent years to discard the word for that purpose and to refer to the conventional concept as business income a natural term at avoids any overlap with economic theory. The most important points of difference between the economists and accountants are as follows:

- The inclusiveness of costs i.e. what should be subtracted from revenue to get profit.
- Meaning of depreciation
- The treatment of capital gains and losses
- The price level basis of valuation of assets and liabilities
- Although there may be arguments in favor and against profit generating almost all firms require earning it. Their rate of earning differs from firm to firm and time to time.

2.3.2 Theories of Profit

Economists have propounded several theories of profits to explain profits of entrepreneurs. Most of the theories are centered on the controversy about the role of the entrepreneur. In the following section some of the fundamental theories of profit have reviewed in brief.

1. **Theory of Risk and Uncertainty Bearing:-** It was F.B. Hawley who first developed the theory of risk bearing and concluded that profit is a reward of the entrepreneurs for bearing risks. But, the theory was picked up b Professor F.H. Knight who divided risk into insurable risk and uncertainties. Thus according to Knight, profit is a reward to the entrepreneur for his non-transferable function of bearing non-insurable risk and uncertainties.
2. **Dynamic Theory of Profit:-** This theory was propounded by J.B. Clark. According to this theory, 'dynamic changes' in the economy are the basic causes of emergence of profits. There is no profit in the static economy as no changes take place. In a dynamic economy there are constant changes in population, capital, methods of production and industrial set up. These changes multiply wants of consumers, which earn profits to the entrepreneur.

3. **Innovation theory of profit:-** Joseph Schumpeter singled out 'innovation' from the dynamic theory of profits and developed economy and innovation in the changing world gives rise to profits. In his views, the entrepreneur plays an important role of introducing innovation in an economy and profits are the rewards for his role as an innovator. The innovation could be changes or techniques that reduces cost of production or increases demand for the product.

2.3.3 Need For Profit

Profit is necessary for the following reasons:

1. **Measurement of Performance:-** Profit is only factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.
2. **Premium to cover costs of staying in Business:-** Business environment is full of risks and uncertainties. to grasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. require a profit margin.
3. **Ensuring Supply of Future Capital**:- Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It also attracts investors for further investment.
4. **Return to the investors**:- Shareholders provide equity capital to the business because they expect the entity will provide return to their funds at least equal or above market rate of return. To maintain the shareholders expectation, it is most important that a firm should earn sufficient profit so that it can distribute dividends.

2.3.4 Profitability of Commercial Banks

Banks today are under great pressure to perform to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans, and investments are sound" (Rose, 1991: P, 155) The majority of the needs of the stakeholders are related with the profitability of the banks. For example, in case the bank earns profits, the investors get dividends, employees get bonus, government gets benefits in forms of taxes etc. Thus, the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit.

The major source of funds of the bank is the public deposit. Commercial banks invest public deposits on those sectors where they can attain the maximum income or higher rate of return as the bank is liable to pay certain rate of interest to the public in their deposit. Hence the investment or granting of loan and advance by them are highly influenced by profit margin. Generally the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan, and nature of investment in different securities. However, the bank at the same time has to ensure that their investment is safe from default.

Aspiration of profit to commercial banks seem reasonable as the bank has to cover all the expenses as interest to the depositors and other administrative costs, they should make payment in the form of dividend to the shareholders who contributed to build up the banks capital and keep aside for the provision and reserves. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligations, it will go ahead for investment.

A successful bank is one who invests must of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserve to meet day-to- day requirements of the depositors. After all the commercial bank is simply a business corporation organized for the purpose of maximizing the value of the shareholders wealth invested in the firm at an acceptable level of risk. So bank has to make a crucial decision regarding a mixture of liquidity and profitability cause lower the liquidity higher the profitability and higher the liquidity lower the profitability and both are equally important, banks cannot afford to ignore any of them.

2.4 Legal Provision

Banks and Financial Institutions Regulation Department NRB (Directives No. 8/068)
"Provisions relating to Investments" following Directives have been issued with regard to investment of financial resources of a licensed institution having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Implementation of Investment Policy and Procedures upon Approval The licensed institutions shall implement the policies and procedures regarding the investment in Government of Nepal securities, Nepal Rastra Bank bonds, and

other corporate bodies' share and debentures only upon the approval of investment policy and procedures by the Board of Directors.

2. Provision for Investment in Government of Nepal Securities and Nepal Rastra Bank Bonds**.** There shall be no restriction as to investment by the licensed institutions in the securities of Government of Nepal and Nepal Rastra Bank bonds.

3. **Provisions for Investment in Shares and Debenture of Corporate Bodies**

   - Licensed Institutions shall invest only in the shares and debentures of corporate bodies listed in the Nepal Stock Exchange after the public issues of shares. Provided that, where the investment has been made in the shares and debentures of corporate bodies which are not listed in the stock exchange, and if such listing is not completed within one year from the date of investment, a provision of equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve by creating such reserve fund. The outstanding amount in such Reserve shall not be utilized for any other purpose till the said shares and securities of the corporate body are listed. With respect to investment in newly opened corporate body that where such company is not listed in stock exchange within two years from the date of operation or investment being made, a provision of equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve.
   - While carrying out projects such as land development, land purchase and housing construction for residential purpose and sale and management of such houses and land pursuant to clause (ad) of sub-Section (2) of Section 47 of the Banks and Financial Institutions Act, 2006 by the class "B" licensed institutions and pursuant to clause (u) of sub-Section (3) of the same Section of the same Act, licensed institution shall not invest more than twenty-five percent of the core capital of immediately preceding month.
   - While investing in housing construction and land development by a licensed institution, it may invest an amount not exceeding ten percent of the core capital maintained immediately preceding month. If found to have been invested more than the limit, the core capital shall be maintained having deducted the amount equal to the exceeded investment from the core capital. While making such investment, investment shall be made only in the building

construction and land development companies that have been incorporated as public companies.

- Licensed institutions may invest in shares and securities of any one corporate body up to 10 percent of its core capital maintained at immediately preceding trimester and not exceeding the cumulative amount of such investment in all the companies by more than 30 percent of its core capital. Similarly, while investing in shares and debentures of corporate bodies by a licensed institution, investment shall be made not exceeding 10 percent of the paid up capital of the institution in which the investment is being made and not exceeding 25 percent of the same in case of investment made in class "D" institutions. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the Core capital fund.
- Chairperson/member of a parent company shall not be allowed to be the chairperson or number of the subsidiary company. In case of Directors who are Directors in the subsidiary company prior to issuance of these Directives on May 10, 2010, he/she shall have to move from it before the upcoming first general meeting of the parent company or within one year of issuance of this directive, whichever is earlier.

4. **Provision for Review of Investment Portfolios**

- Licensed institutions shall review its investment portfolios on half-yearly basis. With respect to such review, a statement from the Internal Auditor of the licensed institution certifying that the investments are made according to the existing investment policy and according to this Directives be obtained and `shall also be approved by the management of the institution within 1 (one) month from the close of the half yearly period. A copy of the approval of the management of the institution shall be submitted within Falgun 15 (end of February) and Bhadra 15 (end of August) of each fiscal year to this Bank's Bank and Financial Institutions Regulation Department and concerned Supervision Department.

5. **Valuation of Shares and Debentures**

- The investments of the licensed institutions in shares and debentures shall be separated company wise according to Directives Form No. 8.1, 8.2 and 8.3. It shall be shown in its assets having evaluated it semiannually based on the purchase price or the market price, whichever is lesser. Provided that, where the market price of any company's shares or debenture falls below the cost price, the difference amount has to be debited to the Profit and Loss Account and credited to provision for loss in investment account.

- Moreover, while evaluating investment, it shall have to be evaluated according to the provision made in Points 2 and 2.B.3 (Investment Policy) of Directives No. 4/067 and the details thereof shall be prepared in the format of Nepal Rastra Bank Directive form No. 8.2.

6. **Provisions Relating to Purchase/Investment in Fixed Assets (House/Land) For Own Purpose**
   - The banks of financial institutions incorporated and in operation under the B to F1A shall be allowed to purchase/invest in the fixed assets. (house/land) for the self purpose in the case they meet the following terms and conditions:
   - Entire pre-operating expenses of the bank/financial institution is written off.
   - The first general meeting is completed upon issue of shares to general public as refund to in the Memorandum of Association/Articles of Association.
   - The institution is in profit at the time of purchase of the property.
   - The capital fund is adequate according to the Directives issued by this Bank. Moreover, in case of purchase of investment in the fixed assets without meeting the said terms and conditions; the amount equivalent to that to be deducted while calculating the core capital fund.
7. **Additional Arrangement Regarding Investment**
   - Licensed institutions shall not invest in any shares, securities and hybrid capital instruments issued by any other institution of "A", "B" and "C" class licensed by this Bank.Provided that, this clause is not applicable in case of share investment in class "D" institution and income of share investment with approval from this Bank.
   - The core capital maintained in the Directives relating to investment means, the core capital maintained at the immediately preceding trimester except specifically stated otherwise.

Banks and Financial Institutions Regulation Department NRB (Directives No. 16/068), *"Provisions Relating to Collection of Financial Resources"* following Directives have been issued, having exercised the powers conferred by Section 79 of the Nepal

Rastra Bank Act, 2002, with regard to the financial resources to be collected by the institutions licensed by this Bank.

1. **Limit for Mobilization of Financial Resources**
   - The "A" Class licensed institutions may mobilize financial resources without any limitation.Provided that in case of borrowing, one third of the total deposit liability in maximum may be mobilized.
   - The "B" Class licensed institutions may mobilize financial resources (with or without interest of all types of deposits, borrowings and debt instruments) up to twenty times of their Core capital fund. Provided that in case of borrowing one third of the total deposit liability in maximum may be mobilized.
   - The "C" Class licensed institutions may mobilize financial resources (with or without interest of all types of deposits, borrowings and debt instruments) up to fifteen times of their Core capital fund. Provided that in case of borrowing, one third of the total deposit liability in maximum may be mobilized.
   - The "D" Class licensed institutions may mobilize financial resources up to thirty times of Core capital fund. Provided that except in cases of clause 12 of these Directives, collection of deposits from non-members shall not be allowed.

Explanation:"Financial resources" means funds collected from group members by way of deposit, borrowing and debentures.

   - For the purpose of monitoring the limit of mobilization of financial resources, the core capital fund maintained at the last quarter shall be considered as the base.

2. **Limit for Institutional Deposit Collection**

   The "A", "B", and "C" Class licensed institutions may collect institutional deposits from a single firm, company or any corporate bodies not exceeding twenty percent of its total deposit.

3. **Preparation and Application of Rules and Procedures for Deposit Collection and Payment**
   - The licensed institutions shall prepare and apply rules and procedures covering the types, period, and so on of the deposits that the institution is to accept and implement. Such Rules and procedures shall be submitted to

Banks and Financial Institution Regulation Department and concerned Supervision Department of this Bank.

- The licensed institutions shall submit the details of dormant deposit accounts which is not in operation for the last ten years and not claimed, to this Bank within one month from the close of each of the fiscal years.
- The licensed institutions shall submit the details of unpaid dividend not collected by the shareholder or his/her heir for a period of five years from date of declaration to this Bank within one month from the closure of the fiscal year.
- The licensed institutions shall publish, at least once, the particulars of inoperative deposit accounts or unclaimed deposits or unpaid dividend mentioned under Sub-Clauses (1) or (2) above in the national level newspapers within one month of the above-mentioned period. If the amount is not claimed even after such publication, the amount has to be deposited into the account as directed by this Bank.
- The licensed institution may open saving account only in cases of natural person, or organizations/ associations (including Postal Saving Banks) which have been established with not profit making objective. In cases of saving accounts opened by other organizations /institutions, except natural persons and not profit-making organizations, the accounts have to be closed without delay. Moreover, according to the acceptable banking norms, the concerned institution shall have to distinguish the accounts that have to be issued cheque book and that have not to be issued cheque book and cheque books have to be issued accordingly. Provided that the said provisions shall not prohibit the non-natural persons such as organizations, associations, companies to open accounts earning interests other than saving accounts.

4. **Borrowing**
   - The licensed institutions may borrow funds from banks and financial institutions, individual, firm, company and corporate body not exceeding the limit prescribed in Clause (1) above.
   - Notwithstanding anything contained in Sub-clause 1 above, the licensed institutions all take approval of this Bank for borrowing funds or accepting financial assistance from foreign government or international organizations/institutions.

5. **Provisions Relating to Deposit Transaction**

- Licensed banks and financial institutions shall not be allowed to maintain deposits and have loan transaction in financial institutions which have been mobilizing deposit and carrying out loan transactions according to other prevailing laws. Provided that this provision shall not apply in cases of the financial institutions established with objective of carrying out bulk transaction of micro-finance.

6. **Share Deposit scheme may be operated**

The licensed banks and financial institution (belonging to classes 'A', 'B', 'C' and 'D') may operate shares deposit schemes subject to the following terms and conditions:-

- In case the saving depositors under the shares deposit scheme desire to purchase the shares (promotes group) of the said company, they have to be eligible to become promoters according to the Banks and Financial Institutions Act, 2006, the unified Directives issued from this Bank and the provisions made in the policy for providing license.
- The depositors desiring to change the deposit collected under the shares deposit scheme into ordinary shares (promoters group), the provisions and processes referred to in the prevailing laws relating to securities transactions have to be complied with and at the time of giving the shares of promoter group to the depositors in such a way, the banks and financial institution shall have to provide the promoter shares to them only after obtaining an approval from the Nepal Securities Board as well.
- It shall have to be clearly stated in the internal policies /Byelaws of the concerned companies that it must be publicized for public information to the saving depositors desiring to purchase promoter group shares being involved in the scheme that shares of promoters group may be purchased only after fulfilling the required processes having abided by the laws and Directives relating securities subject to the Banks and Financial Institutions Act, 2006, policy provisions made by this Bank and other prevailing laws.

Banks and Financial Institutions Regulation Department NRB (Directives No. 15/068),*"Provisions Relating to Interest Rates"* following Directives have been issued, having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, with regard to the interest to be paid for the deposits and interest to be charged for loans and advances by the licensed institutions.

1. **Provisions Relating to Interest Rates**

   The "A", "B" and "C" Class licensed institutions shall be free to fix interest rates for both deposits and lending, including fixation of types of interest and procedures on their own.

2. **Prohibition for Fixing Flat Rate of Interest**

   The licensed institutions other than "D" Class institutions shall not be allowed to fix flat interest rates on the loan and advances.

3. **Interest Rate to be approved**

   Licensed institutions shall implement the interest rates for deposits and lending, procedures for calculation of interest, penal interest, commission and service charges only after approval. The institutions may increase the interest rate for deposits up to a point of 0.5 percent over the published rates, but in case of interest rate on lending it should not be higher than published rate.

   Interest rate may be fixed on the agreement between bank or financial institution and customer in the case of perpetual fund or in case of deposit having the maturity period of more than five years. No provision of published interest rate shall be applicable in case of the institutional deposit to be collected on the basis of bidding.

4. **Submission of Return on Interest Rate**

   The licensed institutions shall compulsorily furnish the statements of interest rates on deposits and lending to Banks and Financial Institutions Regulation Department and the concerned Supervision Department of this Bank within seven days of the end of each quarter. Moreover, the licensed institutions shall submit all provisions and procedures relating to interest rates according to Clause 3 above at the time of beginning of the implementation and changes made thereto within seven days.

5. **Interest Rates to be published**

   The national level "A", "B", and "C" Class licensed institutions shall publish the particulars according to Clause 4 above at the time of each amendment made in the interest rates on deposit and lending in national daily newspapers.The regional/ district level institutions shall publish the particulars of changes in the requirement of about the minimum level of balance to be maintained in the regional/district level newspapers. Provided that the "D" Class institutions may publish the rates putting the information on its notice board.

6. **Provisions of recording interest income**

   The interest accruals on loan and advances shall be recognized as income on cash basis only. The interest accrued but not realized in cash shall be recognized in the year of cash realization and the account shall be reconciled accordingly. Interest receivable for a period shall be debited to "interest receivable account" and credit to "interest suspense account".

7. **Provisions relating to providing interest**

   In situation where interest on credit/lending by banks and financial institutions on a quarterly basis, interest shall be credited to the savings account of depositors at least on every 3/3 months basis. Interest to be provided to depositors shall be provided at least on average deposit balance of week, month, quarter or other duration on the basis of which the interest has to be calculated according to the policy of the concerned bank and financial institution to provide interest on deposit liability.

(Note: "Average deposit balance" means the average of daily closing balance to be maintained after the end of daily transaction. For example, the procedures according to which licensed banks and financial institutions use to have calculated interest on the remaining amount of credit and lending, the same procedures shall be applied in the calculation of the interest.)

8. **Action for Non-Compliance of provisions relating to interests rate**

   If the licensed institutions are found not complying with the Directives relating to branch/ offices, actions may be initiated under the Nepal Rastra Bank Act, 2002.

2.5 Review of Related Research

Bajracharya (1995), "*Rastriya Banijya Bank: A comparative performance study*" states the growth of commercial banks is not consistent, low growth of local banks and JVBs. The mobilization of rural savings is better in case of local banks. Credit expansion is decreased in local banks than JVBs. Credit deposit ratio is better in JVBs. Non performing loan is greater in local banks and profitability is greater in JVBs. Local banks are forced to open and continue their branches at rural areas therefore the competition among the local banks and JVBs is not healthy.

Dhungana (1998), *"Problem encountered by the Nepalese financial system"*, NRB Samachar, Annual Publication, 2053 B.S., highlighted the major weakness of the banking sector, mainly of RBB and NBL. According to the writer, the financial sector is dominated by banking sector and which in turn, is dominated by two old government owned banks. These two banks constitute the largest component of total deposit of banking system. These two banks suffer from various problems, which results the unsound health of the banking industry of Nepal. The major weaknesses of these banks are.

- Concentration of loan to limited borrowers
- Large number of branches with limited transaction
- Inefficient staff and absence of manpower development and planning
- Poor supervision and follow up after credit disbursement
- Insufficient records and bookkeeping
- No application of modern banking equipments in bank branches
- To improve the productivity and quality of banking sector the authorities have created a new environment given raise to JVBs.

Kunt and Harry (1999), in the journal, World Bank Policy Research Working Paper No. 1900. under the topic *"Determinants of Commercial Bank Interest Margins and Profitability: Some International Evidence"*, says that differences in interest margins andbank profitability reflect a variety of determinants: bank characteristics, macroeconomic conditions, explicit and implicit bank taxation, deposit insurance regulation, overall financial structure, and underlying legal and institutional indicators. A larger ratio of bank assets to gross domestic product and a lower market concentration ratio lead to lower margins and profits, controlling for differences in bank activity, leverage, and the macroeconomic environment. Foreign banks have higher margins and profits than domestic banks in developing countries, while the opposite holds in industrial countries. Also, there is evidence that the corporate tax burden is fully passed onto bank customers, while higher reserve requirements are not, especially in developing countries.

In the report and recommendation of the president of Asian Development Bank to the board of directors on a Proposed loan and technical assistance grant to the Nepal for the corporate and financial governance project published in 2000 A.D. clearly discussed on the financial difficulties of State-Owned Financial Institutions. The report states that all state-owned financial intermediaries face financial difficulties, although the extent of the problems is difficult to assess in the absence of reliable financial information. The poor performance can be attributed to deficiencies in governance, lack of commercial orientation and managerial skills, as well as inadequate policies. Financial record keeping and auditing are not of international standards. Internal monitoring, evaluation, and supervision are weak, as is the system of appraisal and follow-up on loans. The problems are most acute for the two government-controlled commercial banks, RBB and NBL, which dominate the banking system with about 70 percent of total assets. A recent international audit indicates that both banks suffer serious, critical shortfalls in all key areas, and that both are technically insolvent, with negative worth estimated at up to 7 percent of GDP. Although deposits are presumed to be implicitly guaranteed by the Government, a systemic banking or fiscal crisis could emerge if problems remain unaddressed. World Bank assistance in this area has been requested.

2.6 Review of Unpublished Thesis

Khadgi (2006), conducted the study on *"Investment Policy Analysis of SCBNL Bank Ltd."* and submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies.The main objectives of the study are:

- To study the resource mobilization and investment policy of SCBNL Bank.
- To find out the relationship between deposit and investment trends of the bank.
- To evaluate profitability, risk, liquidity and assets management of the bank.
- To find out the current and future investing strategy of SCBNL Bank.
- To provide suggestions to improve investment policy and performance of SCBNL Bank based on the findings of the study.

The study concluded that,

- The liquidity position of SCBNL bank is below the normal level. The return on assets ratios has a fluctuating trend with mean ratio of 2.02% on an average. The C.V. of 32.67% shows that the ratio seems inconsistent and variable during the study period.

- The return on loan and advances ratios is in increasing trend with the mean value of 4.34% in an average. The ratio seems to be less variable and consistent.
- The interest earned to total assets ratios is in decreasing with mean of 6.47% in an average. The ratio during the study period seems to be consistent and less variable.
- The interest earned to total outside assets ratio of found to be 8.37% in an average during the study period. The C.V. of 23.17% indicates that the ratios are consistent.
- The analysis shows that the SCBNL Bank has average 8.37% income margin from outside assets. If the margin is higher than cost of fund, the bank will be on profit.
- The interest paid to working fund ratios is in decreasing trend with 2.54% in an average during the study period. The ratio seems to be consistent and less variable.

Sapkota (2007), completed the study *"Profitability Benchmarking of NB Bank"* and submitted to Shanker Dev Campus in partial fulfillment of the requirement of Degree of Master in Business Studies.The main objectives of the study are as follows.

- To examine the profitability situation of the JV bank industry as a whole and sample banks.
- To analyze the profitability trend of NB Bank and the JV bank industry over the last five years.
- To ascertain the comparative position of profitability of NB Bank with respect to other JV Banks.

The Major findings of the study were;

- NB Bank's past and present earning generating potential is assessed as low in many parameters of profitability in comparison to the industry as well as other joint venture banks in the country.
- The risk inherent in the loans and advances is high. The contribution of interest income to total income in year 2062/63 is 78.59% while the rest contribute only 21.4%. So, the bank should look to increase the fee-based income as it provides safe and good returns.

- The credit deposit ratio of the bank stands at 75% in the year 2062/63. Although this is good from the profitability aspect, there could be potential problems of liquidity.
- The net profit of the NB Bank had registered significant growth in the early years posting increases upto 8.6% in the first two years. However, in the previous three years, it decreases sharply.

Sanjel (2008), has carried out a research work on the topic *"Analysis of Investment Policy of Commercial Bank"*. The main objective of the present study is to analyze the liquidity position as well as the investment policy adopted by NBBL, HBL and SCBNL and comparison of such between themselves. Presently the bankers are facing a huge tension of liquidity and this is not a good signal toward the performance of the banks. The study focuses whether it is backward or forward in investing its fund efficiently in industry average. The specific objectives of the study are given below;

- To evaluate the liquidity, assets management, efficiency and profitability of HBL,NBBL and SCBNL
- To analyze the deposit utilization trend of the HBL, NBBL and SCBNL.
- To analyze the relationship between total investment with other financial variables of HBL, NBBL and SCBNL and comparison between them.
- To recommend the package of workable suggestions and possible guidelines to improve investment policy of HBL, NBBL and SCBNL based on the finding of the study.

Based on this study, her major findings were;

- The mean ratio & CV of current ratio of SCBNL is satisfactory. Only the SCBNL seems capable of paying current obligations. The ratio of HBL seems improving but the NBBL ' trend is deteriorating.
- The mean ratio & CV of cash and bank balance to total deposit ratio of HBL is higher. Higher ratio of HBL shows that it is able to serve the demand of its customers i.e. it is operating at the lower risk. The mean ratio of SCBNL and NBBL are lower than HBL but seems satisfactory. On the basis of CV it can be conducted that the ratio of SCBNL and NBBL are more consistent than that of HBL.

- The mean ratio and CV of cash and bank balance to current assets ratio of HBL in higher. NBBL takes place after HBL. SCBNL is also satisfactory position and has more consistent on the ratios. The ability of HBL to make the quick payment of its customer deposits on the basis of its most liquid assets i.e. cash & bank balance is higher.
- The mean ratio & CV of investment in government securities to current assets ratio of SCBNL has been found higher and more consistent. SCBNL has better position, HBL has average and NBBL from the point of view of investment in government securities is poor.

Shrestha (2010), has carried out a research work on the topic *"Impact of Investment on Economic Development"*. The main objective of this study attempts to assess the role and impact of investment on economic development of the country.
The main objectives of this study are as follows:

- To analyze the present position of commercial banks regarding investment policy.
- To analyze investment trend and their projection of selected commercial banks.
- To identify investment sector of selected commercial banks.
- To assess the impact of investment policy on performance.
- To make the suggestion, recommendation of the study.

The major findings of this study are;

- Mean ratio of HBL investment to total commercial banks investment is 10.64% which is extremely higher than that of other banks to total commercial banks. The portion of HBL Investment is increasing every year in the Total Investment of Commercial banks.
- NSBL has invested most of their fund in government securities than other banks. Likewise NIBL. HBL, SCBNL and NIBL has started to invest in other sector from FY 2062.
- All the banks has invested fewer funds to share and capital of other company. The commercial banks mostly invest on government securities, NRB bond and share and debentures of other company.
- The mean ratio of Investment of Total deposit of HBL is 31.60% which is higher than other banks. Likewise NIBL, BoKL, SCBNL and NSBL. Loan and advances is also another type of Investment of Commercial bank.

- Growth ratio of deposits of SCBNL is 31.31% which is higher than that other banks and HBL has 8.72% which is lower growth ratio of deposit. All the banks are increasing their deposit.

Lamsal (2011) has carried out a research work on the topic *"Mobilization of Deposit & Investment of Nabil Bank Limited"* The major objective of the study is to analyze the deposit and investment position of NABIL bank and the other specific objectives are as follows.

- To explore the deposit and investment trend of NABIL.
- To assess the impact of interest rate on deposit collection by the NABIL.
- To examine the relationship between deposit and investment of NABIL.
- To compare the performance of deposit and investment of NABIL.

The major findings of this study are as follows.

- The current deposit, saving deposit, and margin deposit are in fluctuating trend over the study period and the call deposit and fixed deposit are in increasing trend over the study period.
- The total deposit of NABIL is in increasing trend in FY 2063/064 the total deposit is Rs. 19347.39 million and then increase by 20.65% in the fiscal year 2064/065, 32.73% in FY 2065/066, 17.02% in FY 2066/067 and 24.26% in FY 2067/068.
- Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 17.03% in FY 2067/068 and the lowest ratio is 14.55% in the FY 2065/066.
- The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 45.33% in FY 2062/63 and the lowest ratio is 29.33% in FY 2067/068.
- The fixed deposit to total deposit ratio is in increasing trend except FY 2067/068. The highest FD to TD ratio is 33.99% in the FY 2067/068 and the lowest ratio is 17.83% in the FY 2063/064.
- The mean value of CD to TD, SD to TD and FD to TD are 20.90, 54.95 and 15.90 respectively and standard deviation is 4.15, 11.55 and 6.99 respectively.
- Growth ratio of total deposit of NABIL during the period of study is 24%. So, it can be said that NABIL has the satisfactory position in term of collection deposit.

Growth ratio of total credit is 25% under the period of study which is high in compared to the growth ratio of total deposit i.e. 24%.

Shrestha (2012), in her study *"A Comparative Study on Investment Policy of Joint Venture Banks"* has studied primarily of four commercial banks i.e. Himalayan Bank Ltd., Nepal SBI Bank Ltd., and Everest Bank Ltd. & Bank of Kathmandu Ltd. The main objectives of her studies are as follows.

- To compare, analysis & evaluate the investment policy of these four commercial banks.
- To evaluate, liquidity, activity & portfolio ratios of these banks.
- To find out the deposit collection & the effectiveness of fund mobilization.

The Conclusion of the research study is as follows:

- HBL is more successful in mobilizing the fund in proper way in comparison to other three commercial banks.
- All these banks should have to increase the deposit collection, investment in securities shares & debentures.
- All banks should be in rural areas & have to take effectives marketing strategy for their promotion.
- New technologies have to be introducing so to develop new banking system.

2.7 Research Gap

Since so many years the study has been done on the topic investment analysis and Profitability analysis. Most of the studies are related with investment , deposit and profitability. They mainly focus on the data available. However, such special study related to impact of investment on profitability analysis has been limited. In this study, the researcher has attempted to evaluate the impact of investment on profitability of Nepalese commercial bank, in order to know somehow about the practical experience of impact of investment on profitability analysis. So this study will be fruitful to those interested persons, students, scholars, stakeholder, Civil Society, teachers, businessmen and government for academically as well as policy perspective.

The study has been different from other studies as it has follows different types of tools and techniques. This study follows the financial tools as well as statistical tools for data analysis and presentation, financial tools like different types of ratios, profitability position analysis, growth ratio analysis and statistical tools like correlation analysis, trend analysis, and probable error etc.

CHAPTER - THREE

RESEARCH METHODOLOGY

A systematic study needs to follow a proper methodology to avhieve pre determine objective. Research methodology may be defined as "a systematic process that is adopted by the researcher in studying problem with certain objective and view". In other word, research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. It is really a method of critical thinking by defined and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions.

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a brief explanation of research design, nature and sources of data, method of data collection and methods of tools used for analyzing data.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study.To achieve the objective of this study, descriptive and analytical research design has been used.

It is the process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study.This study is carried out by using both quantitative and qualitative analysis methods.Mostly, secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of the selected bank is also used for qualitative analysis. Hence, research design of this study is based on descriptive and analytical method.

3.2 Population and Sample

There are 32 commercial banks in Nepal according to NRB . Out of these, SCBNL is selecte to analyze working capital management. The annual financial report is the population of the study.It is quite difficult to adopt the whole population in this study, sample of the 5 years financial statements are take for the study.The sample of the study comprise financial ststement, balance sheet and profit & loss a/c of SCBNL.

3.3 Nature and Source of Data

For the purpose of this study, data are collected mainly from the secondary source. The secondary data are based on the second hand information. Secondary data were gathered much more quickly than primary. Secondary source are bulletins and newspapers of selected banks, annual reports, official document, reference material collected from library. The data published in the annual reports of the respected banks, various journal, periodicals and reports published by central bank and the article, books and news published in the respective subjects shall be taken into consideration. So any mistakes and misrepresentation will affect the outcome of the study. Thus it is assumed that all of data here in are correct and accurate.

3.4 Method of Data Collection

It indicates the sources of data and how they collected.In this study data are collected through published sources.They were collected from the correspondent offices and their respective websites.The annual reports of SCBNL, NRB publications,the data regarding the profile of SCBNL and other related documents were collected from internet websites.Unpublished master's thesis, books, research papers, articles,journals have been collected mainly form Centre Library of Tribhuvan university, library of Shanker Dev Campus and NRB Magazines and newspapers were from concerned authorities.

After collecting data, as necessarily required, they were separated and analyzed presentation and analysis of the collected data is the main theme of the research work. Collected data were first presented in systematic manner in tabular forms and then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph, charts and tables have been presented to analyze and interpret the finding of the study.

3.5 Method of Data Analysis

Method of data analysis is the raw data processing technique to find out the result for making decision. Financial as well as statistical tools are used to analyais of data.

3.5.1 Financial Tools

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationships between the items of the balance sheet and the profit and loss account.

Ratio analysis is a powerful tool of financial analysis. A ration is designed as the indicated quotient of two mathematical expressions and as the relationship between two or more variables. In financial analysis, ratio is used as a benchmark for evaluating the financial position and performance of a firm.The financial tools used in this study are as follows.

a. **Percentage Change: -** To find out the changing positions of different amount this ratio is used. This ratio is calculated to measure the acceleration or retardation of any variables to the company is to take the suitable direction. It is calculated in following way:

Annual percentage change = $\frac{Amount\ of\ This\ Year - Amount\ of\ Last\ Year}{Amount\ of\ Last\ Year}$

b. Credit Deposit Ratio: - To find out the effective utilization of available sources this CD ratio is used and to find out CD ratio following formula is used.

Credit deposit ratio (CD Ratio) = $\frac{Credit}{Deposit}$

Where, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposits consist of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

c. **Total Investment to Total Deposit Ratio:-** Investment is one of the major sources of earning of profit. This ratio indicates how properly firm’s deposits have been invested on government securities and shares and debentures of other companies. This ratio is computed by using following formula:

Total Investment toTotal Deposit = $\frac{Total\ Investment}{Total\ Deposit}$

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

d. **Net Profit Margin:-** The ratio signifies the effectiveness of expenses management and cost control and gives the direction to the management for service pricing policies. It means how much of total revenue has been declared as net profit after all the charges are over up. The higher ratio means the management has been able to control its operational costs and maintain efficiency.

$$\text{Net Profit Margin} = \frac{Net\ Profit\ After\ Tax}{Total\ Operating\ Income}$$

e. **Return on Total Assets (ROTA):-** The ratio is a primary indicator of managerial efficiency. It indicates how efficiently the assets were utilized by the bank. The ratio measures how far the management has utilized all the assets of the bank for profit generating activities. Higher ROTA indicates higher efficiency in the utilization of the total assets and vice versa.

$$\text{Rrturn on Total Assets (ROTA)} = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

f. **Return on Equity (ROE):-** Equity refers to the owner's claim of a bank. The excess amount of total asset over outsider's liabilities is known as shareholder's equity. It is also known as net worth. This ratio measure how prudently the management has employed shareholder's fund keeping the interest of shareholders and maximize their net worth. It is the measurement of the rate of return available to the bank's shareholders. The ratio provides the company to deliver a good return on equity. This ratio is calculated by dividing net profit by total equity capital.

$$\text{Rrturn on Equity (ROE)} = \frac{Net\ Profit\ After\ Tax}{Shareholder\ Equity}$$

g. **Return on Loans & Advances:-** This ratio shows the return on loans and advances during the year. Higher ratio of net income to loans & advance is better.

$$\text{Return on Loans \& Advances} = \frac{Net\ Profit\ After\ Tax}{Loans\ \&\ Advance}$$

3.5.2 Statistical Tools

Statistical tools are used to analyzed the relationship between two or more variables and to find how these variables are related.In this study,following statistical tools are used.

a. **Arithmetic Mean or Average**:-The mean or average value is a single value within the range of the data that is used to represent all the values in the series.Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by;

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

Where,

$\overline{X}$	=	Arithmetic Mean
$\sum X$	=	Sum of values of all items, and,
N	=	Number of items

b. **Standerd Deviation:-** The standard deviation is the measure that is most often used to describe variability in data distributions.It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean.Denoted by Greek letter's (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is calculated as;

$$\text{Standerd deviation}(\sigma) = \sqrt{\frac{\sum(\mathbf{X}-\bar{\mathbf{x}})^2}{N}}$$

Where,

$\boldsymbol{\sigma}$	=	Standerd deviation
$\sum(\mathbf{X}-\bar{\mathbf{x}})^2$	=	Sum of squares of the deviations measured from arithmetic average.
N	=	Number of items

c. **Coefficient of Correlation**:- Correlation is a statistical tool design to measure the degree of association between two or more variables.In other word if the changes in one variable affects the changes in other variable,then the variable are said to be co-related when it is used to measure the relationship between two variables, then it is called simple correlation.The coefficient of correlation measures the degree of relationship between to sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the tudy.The result of coefficient of correlation is always lie between +1 and -1.The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum {x_1}^2 \sum {x_2}^2}}$$

Where,

r = Correlation coefficient

$\sum x_1$ = $X_1 - \overline{X}_1$

$\sum x_2$ = $X_2 - \overline{X}_2$

Under this topic,Karl Pearson's correlation coefficient is used to measure the degree of relationship between the following variables.

1. Coefficient of correlation between Total Investment and Net Profit.
2. Coefficient of correlation between Total Deposit and Loan & Advances.

The interpretation of calculated valve of correlation cofficient by following way.

- If r = 0, then there is no correlation between variables.
- If r > 0, then there is positive correlation between variables.
- If r < 0, then there is negative relation between variables.
- If r = +1,then there is perfect positive correlation.
- If r = -1, then there is perfect negative correlation.

d. **Coefficient of Determination (r^2):-** The coefficient of determination is a measure of the degree of linear association or correlation between two variables one of which happens to be independent and other being dependent variable. In other words coefficient of determination measures the percentage total variation independent variables explained by independent variables. Zero to one is the ranging measurement of this coefficient of multiple determinations. If R^2 is equal to 0.75, which indicates that the independent variables used in, regression model explained 75% of the total variation in the dependent variable. If the regression line is a perfect estimator R^2 will be equal to +1, when there is no correlation the value of R^2 is zero.

e. **Probable Error of Coefficient. of Correlation:-** The probable error is a measure of as certainty the reliability of the value of a Pearson's coeff. Of correlation. If the probable error is added to and subtract from the coeff. of correlation, it would gives two such limits within which we can reasonably accept the value of coeff. of correlation to vary. The formulae for finding out the probable error of the Karl Pearson's coeff. of correlation is:

$P.E(r) = 0.6745 \times 1\text{-}r^2 /\sqrt{n}$

Where,

P.E(r) = probable error of coeff. of correlation.

r = Coefficient of correlation.

n = No. of pairs observation.

If $r < 6$ P.E(r), the value of 'r' is not significant no matter how high r value.i.e. there is no evidence of correlation between the variables.
If $r > 6$ P.E(r), the value of r is significant, i.e. correlation is significant.

f. **Least Square Linear Trend Analysis:-** Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms. On the basis of tendencies in the dependent variables in the past periods, the future trend is predicted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variable are repeated in the future or the past events affect the future events significantly The future trend is forecasted by using the following formula.

$Y = a + bx$

where,

Y = the dependent variable

a = the origin i. e. arithmetic mean

b = the slope coefficient i. e. rate of change

X= the independent variable

CHAPTER- IV
PRESENTATION & ANALYSIS OF DATA

To find the answer of research problem, the collected data are necessary to present and analyze by processing. This chapter will present the data on table & figure.The main objective of the study is to present data and analyze them with the helps of various financial and statistical tools.This chapter consists of analysis and presentation of empirical data.The important variables are very sensitive and taken into consideration,so this chapter will present the analysis of components of deposit an investment. The major ratio for the study is profitability ratio.The variables of the ratio indicated above are also tried to study in details.

4.1 Deposit Position Analysis

Deposits are the main sources of resources to meet growing demands of financial existence. The existence of commercial banks basically depends upon the mobilization of deposits. It is important that commercial bank's deposit policy is the essential policy for its existence. The growth of bank depends primarily upon the growth of its deposit. The commercial banks may function well when they have enough deposit. Higher the volume of deposit, higher will be the volume of lending and investment which again creates higher volume of profit.

There is a great need of such deposit in developing countries. Banks being the intermediate accepts this sort of money and helps to channelize this in productive sector. So the importance of banks and financial intermediaries is higher too and so SCBNL also tries to mobilize as much as possible deposit to earn more profit.

Table: 4.1

Deposit Position of SCBNL

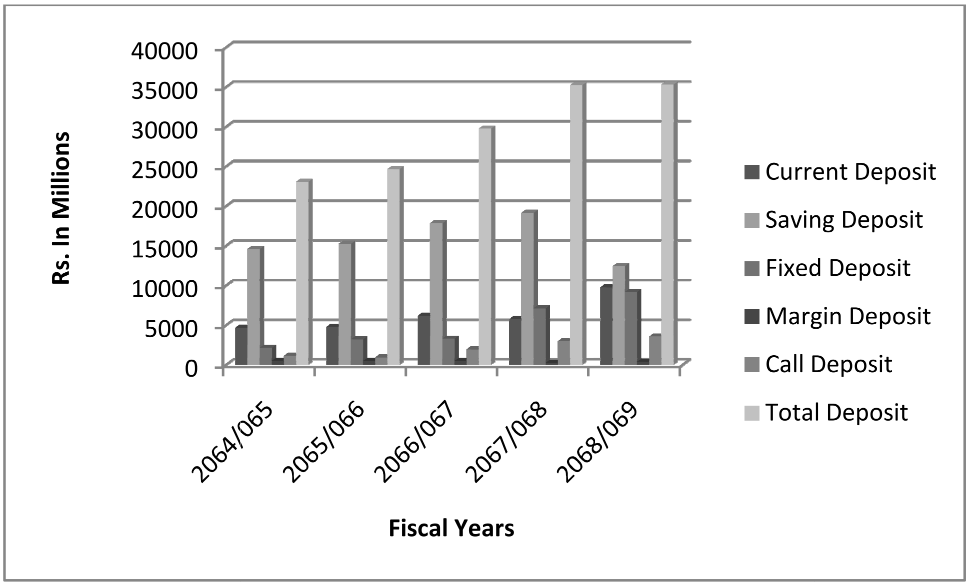
Rs. In Millions

Year (B.S)	Current Deposit	Saving Deposit	Fixed Deposit	Margin Deposit	Call Deposit	Total Deposit	% Changes
2064/065	4681.94	14597.7	2136.30	509.42	1135.69	23061.05	-
2065/066	4794.53	15244.38	3196.49	486.10	925.51	24647.01	6.88
2066/067	6174.56	17856.13	3301.01	474.04	1938.25	29743.99	20.68
2067/068	5752.1	19146.0	7101.70	251.24	2973.06	35224.1	18.42
2068/069	9763.15	12430.1	9175.07	377.96	3563.24	35309.52	0.24

Source: Annual Reports of SCBNL from 2064/065 to 2068/069

Figure: 4.1

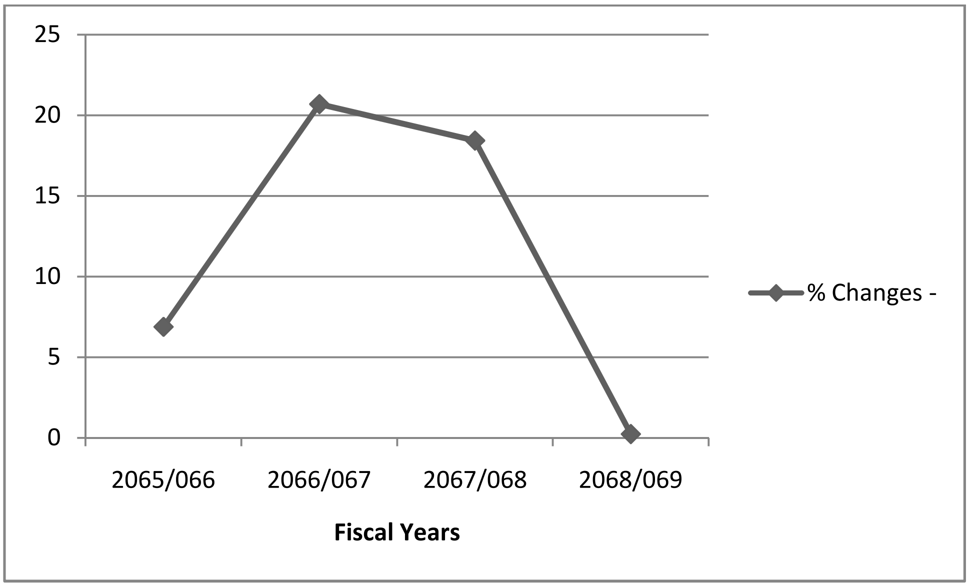
Deposit Position of SCBNL



Source table 4.1 and figure 4.1 shows the deposit position of SCBNL. The total deposit of SCBNL in 2063/64 is Rs. 23061.05 million. During the next five year the total deposit of SCBNL is in increasing trend. In the fiscal year 2068/069 the total deposit of SCBNL is Rs. 35309.52 million. The current deposit, saving deposit, fixed deposit and margin deposit are in fluctuating trend and call deposit is in increasing trend over the study period.

Figure: 4.2

Trend of Total Deposit of SCBNL



Source figure 4.2 shows the total deposit of SCBNL is in increasing trend in FY 2064/065 the total deposit is Rs. 23061.05 million and then increase by 6.88% in the fiscal year 2065/066, 20.68% in FY 2066/067, 18.42% in FY 2067/068 and 0.24% in FY 2068/069.

4.1.1 Different Types of Deposit to Total Deposit Ratios

This ratio measures the proportion of different type of deposit it total deposit. There are mainly three type of deposit in commercial banks.A current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand.

The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule.

Fixed account means as account of amounts deposited in a bank for certain period of time. The customers opening such account deposit their money in the account for a fixed period.

Table: 4.2

Different Types of Deposit to Total Deposit Ratios of SCBNL

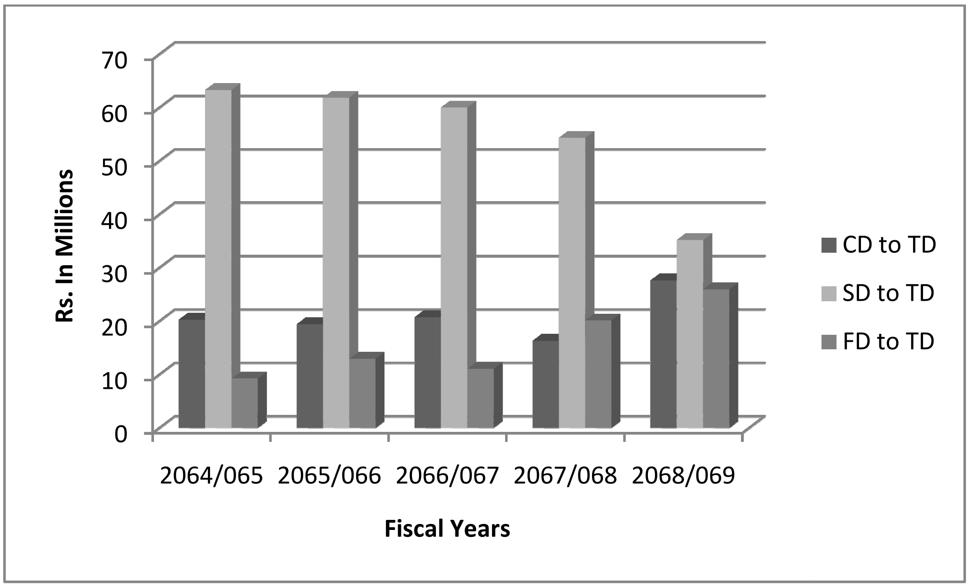
Rs. In Millions

Year (B.S)	Current Deposit	Saving Deposit	Fixed Deposit	Total Deposit	CD to TD	SD to TD	FD to TD
2064/065	4681.94	14597.7	2136.30	23061.05	20.30	63.30	9.26
2065/066	4794.53	15244.38	3196.49	24647.01	19.45	61.85	12.97
2066/067	6174.56	17856.13	3301.01	29743.99	20.76	60.03	11.10
2067/068	5752.1	19146.0	7101.70	35224.1	16.33	54.35	20.16
2068/069	9763.15	12430.1	9175.07	35309.52	27.65	35.20	25.98
Mean					20.90	54.95	15.90
S.D ( )					4.15	11.55	6.99

Source: Annual Reports of SCBNL from 2064/065 to 2068/069

Figure: 4.3

Trend of Different Types of Deposit to Total Deposit Ratios of SCBNL



Source table 4.2 and figure 4.3 shows the major types of deposit and their proportion in the total deposit are shown. Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 27.65% in FY 2068/069 and the lowest ratio is 16.33% in the FY 2067/068. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 63.30% in FY 2063/64 and the lowest ratio is 35.20% in FY 2068/069. Similarly, the fixed deposit to total deposit ratio is in increasing trend except FY

2066/067. The highest FD to TD ratio is 25.98% in the FY 2068/069 and the lowest ratio is 9.26% in the FY 2064/065. In each fiscal year saving deposit to total deposit ratio is higher than other ratios it means the proportion of saving deposit is higher than other deposit of the banks.

4.2 Investment Pattern of SCBNL

Investment usually means the sacrifice of the current money for future money. The sacrifice takes place in the present and the reward comes later, if at all, and the magnitude is generally uncertain. However, Shrestha (2002) describes investment as utilization of saving for something that is expected to produce profit or benefits. Investment is employment of funds to achieve added income or growth in value. It involves the commitment of resources put off from current consumption with hope of capitalizing some benefits in future. It includes both real asset and financial asset .Real asset investment denotes the tangible assets like building, land, machinery, factory and the like. On the other hand, financial asset investment indicates papers representing an indirect claim to real asset held by someone else. .Nevertheless, real asset is less liquid than financial asset.

“Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generated positive returns” (Gitman & Joehnk, 1990: 265).

“Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involved in the future flow of the funds*”(*Frank & Reilly, 1972: 299)

The above definitions describe that an investment is the allocation and mobilization of funds for a certain time period to acquire some extra benefit or extra attachment with mobilized fund.

Table: 4.3

Investment Pattern of SCBNL

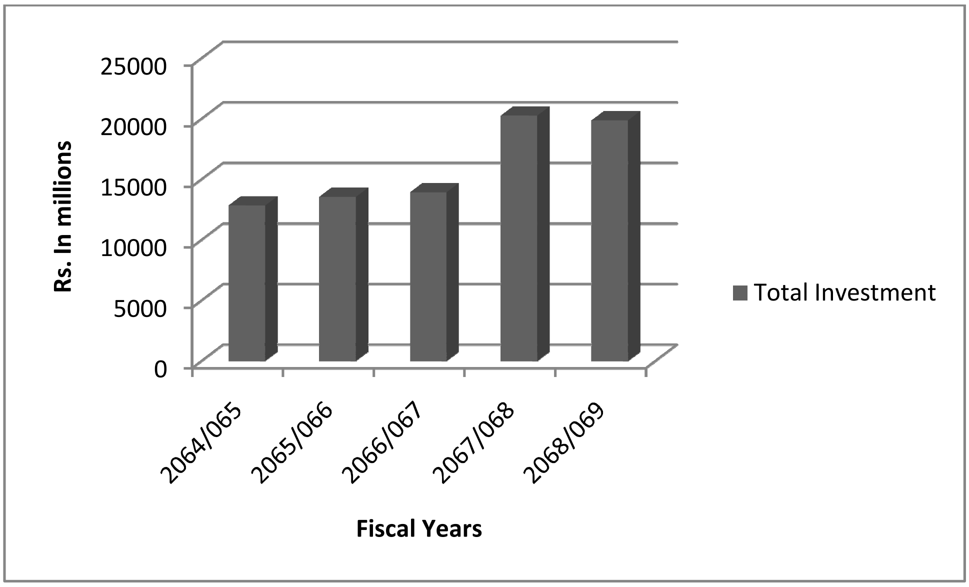
Rs. In Millions

Sector	2064/065	2065/066	2066/067	2067/068	2068/069
Nepal Govt. T-bills	7210.5	5995.10	7157.73	9050.99	7878.57
Nepal Govt. Saving Bonds	1296.54	1046.07	917.15	917.15	648.15
Nepal Govt. Other Securities	128.83	66.76	62.73	30.62	4.79
Local licensed Institutions	-	-	-	250.61	380.0
Foreign Banks	4190.34	4603.35	5675.04	9895.71	10844.95
Corporate Share	15.34	44.94	106.04	106.93	106.93
Corporate Debentures & Bonds	-	-	8.49	8.5	-
Total Investment	**12841.55**	**13556.23**	**13927.2**	**20260.5**	**19871.89**
Less: Provisions	3.00	3.00	24.37	24.38	24.37
Net Investments	**12838.55**	**13553.23**	**13902.82**	**20236.12**	**19847.51**

Source: Annual Reports of SCBNL from 2064/065 to 2068/069

Figure: 4.4

Trend of total Investment of SCBNL



Source table 4.3 shows the investment pattern of SCBNL, the major sector of investment are Nepal Govt. T-bills, Nepal Govt. Saving Bonds, and Nepal Govt. Other Securities, Local licensed Institutions, Foreign Banks, Corporate Share, and Corporate Debentures & Bonds. The SCBNL invest the high amount in the Nepal govt. treasury bills in each year except the year 2067/068, it is risk free assets for investment. The investment trend in treasure bills is in fluctuating trend over the study period, the amount of investment in each year is Rs. 7210.5, 59995.10, 7157.73, 9050.99, 7878.57 respectively in each year respectively.

The second highest investment sector of SCBNL is foreign banks, the amounted invested by SCBNL in foreign banks are Rs. 4190.34, 4603.35, 5675.04, 9895.71, 10844.95 million respectively in each year. The trend of investment in foreign bank is in increasing each year.

The third investment sector is Nepal government saving bonds which holds Rs. 1296.54, 1046.07, 917.15, 917.15, 648.15 million each year respectively. The trend of investment is in fluctuating over the study period.

Investment in the corporate share is in increasing trend over the study period and the investment in the corporate bond is only the fiscal year 2066/067 & 2067/068. Investment in Nepal government other securities is decreasing over the study period and other sector investment are in fluctuating trend over the study period. The total investment of SCBNL is in increasing trend over the study period except the year 2068/069.

Table: 4.4

Investment Pattern of SCBNL in Percentage

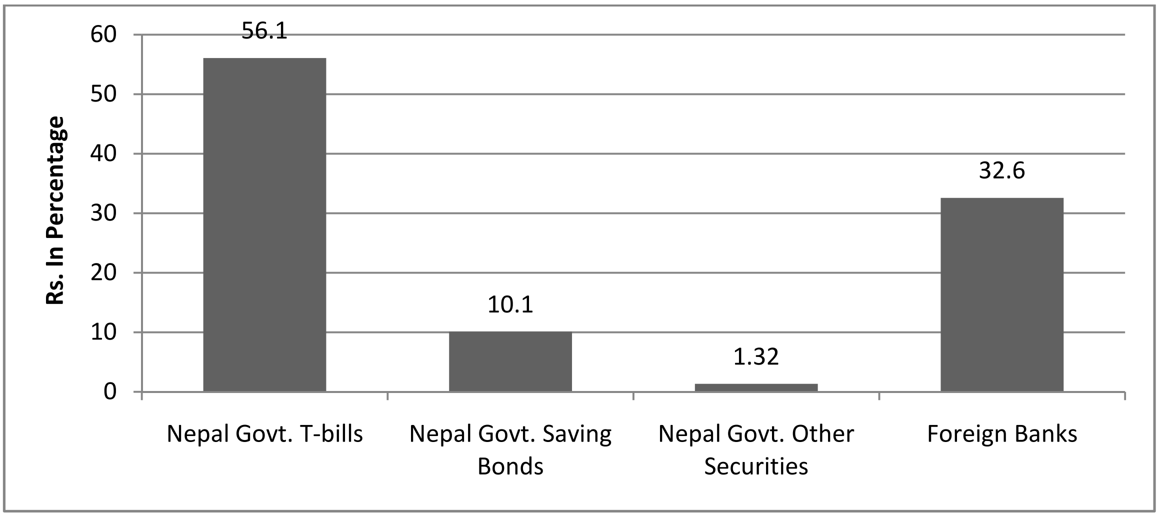
Rs. In Percentage

Sector	2064/065	2065/066	2066/067	2067/068	2068/069
Nepal Govt. T-bills	56.1	49.2	51.4	44.7	39.6
Nepal Govt. Saving Bonds	10.1	8.7	6.6	4.6	3.3
Nepal Govt. Other Securities	1.32	0.5	0.5	0.1	-
Local licensed Institutions	-	-	-	1.3	1.9
Foreign Banks	32.6	41.0	40.7	48.8	54.6
Corporate Share	0.2	0.3	0.8	0.5	1.0
Corporate Debentures & Bonds	-	-	0.1	-	-
Total	100	100	100	100	100

Source: Appendix VI

Figure: 4.5

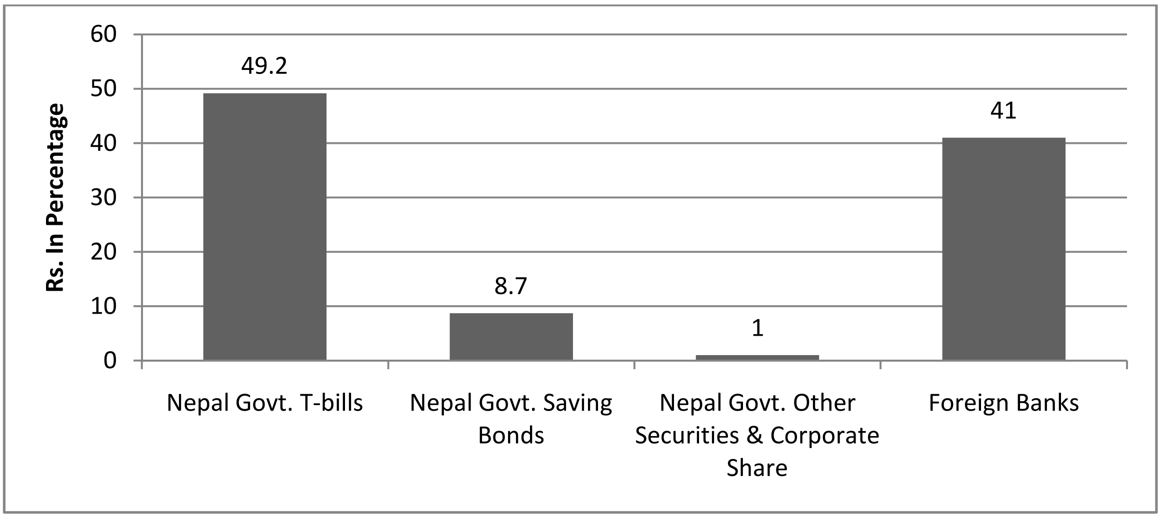
Investment Pattern of SCBNL in 2064/065



In the fiscal year 2064/065 the major proportion of investment of SCBNL hold by Nepal government treasury bills which holds 56% out of total investment and the other sector of investment are Nepal government saving bonds, Other securities and Foreign banks which holds 10%, 1% & 33% respectively.

Figure: 4.6

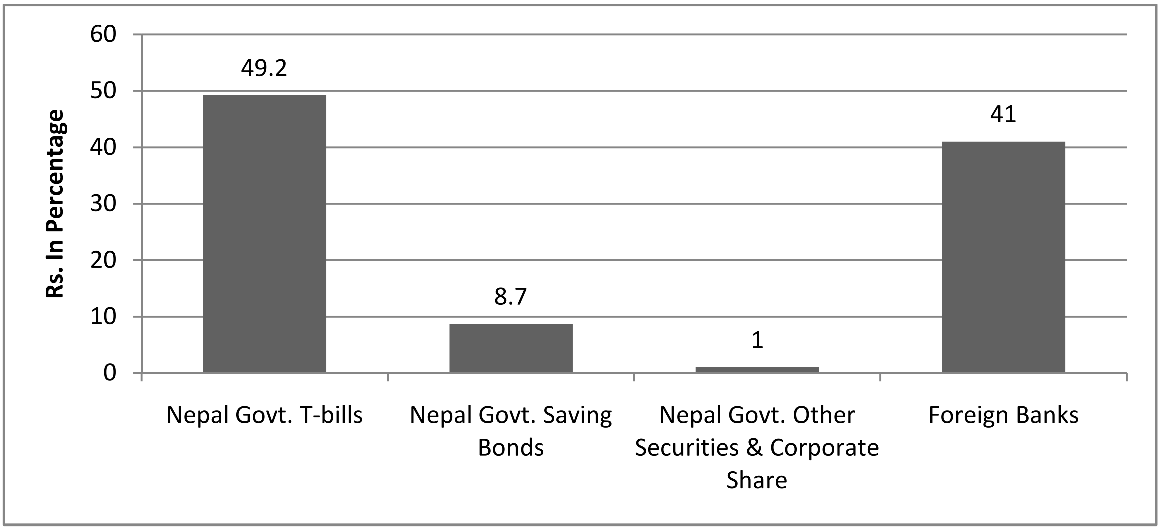
Investment Pattern of SCBNL in 2065/066



The above figure show that the major proportion of investment of SCBNL hold by Nepal government treasury bills which holds 49% out of total investment in 2065/066 and the other sector of investment are Nepal government saving bonds, Other securities & corporate share and Foreign banks which holds 9%, 1% & 41% respectively

Figure: 4.7

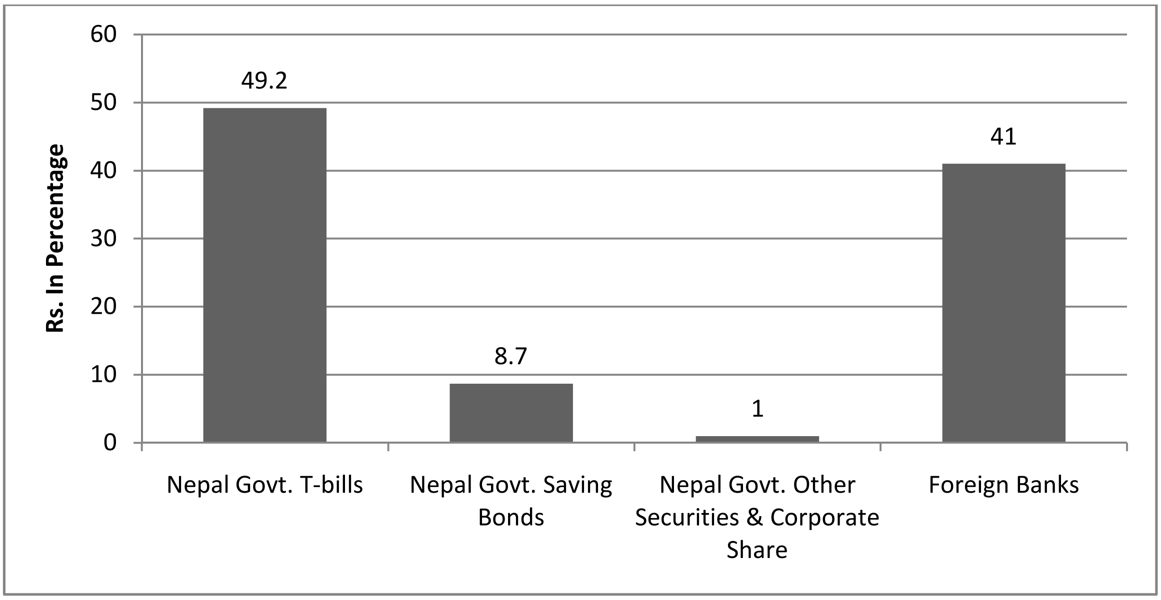
Investment Pattern of SCBNL in 2066/067



In the fiscal year 2066/067 the major proportion of investment of SCBNL hold by Nepal government treasury bills which holds 51% out of total investment and the other sector of investment are Nepal government saving bonds, Other securities, corporate share & debenture and Foreign banks which holds 7%, 2% & 40% respectively.

Figure: 4.8

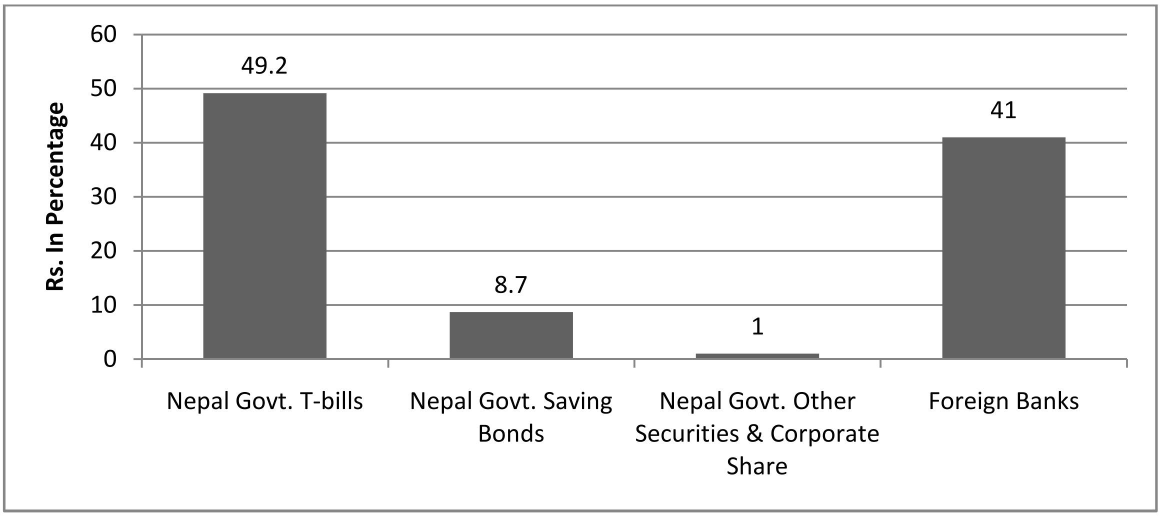
Investment Pattern of SCBNL in 2067/068



Source figure 4.8 show that the major proportion of investment of SCBNL hold by Foreign banks which holds 48% out of total investment in the fiscal year 2067/068 and the other sector of investment are Nepal government saving bonds, Other securities, corporate share & Local licensed institution and Nepal government treasury bills which holds 5%, 1%, 2% & 44% respectively.

Figure: 4.9

Investment Pattern of SCBNL in 2068/069



Source figure 4.9 shows that the major proportion of investment of SCBNL hold by Foreign banks which holds 54% out of total investment in the fiscal year 2068/069 and the other sector of investment are Nepal government saving bonds, corporate share, Local licensed institution and Nepal government treasury bills which holds 3%, 1%, 2% & 40% respectively.

4.3 Analysis of Credit Position

The total credit is the loan and advance and investment. Loan is the sum of the money that will be repay by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective is to increase future wealth. The general public gets attracted to take loan and advances from the bank if the interest rate is lower. The bank provides loan to the general public for different purposes like industry, trade, commerce etc.

Table: 4.5

Credit Position of SCBNL

Rs. In Millions

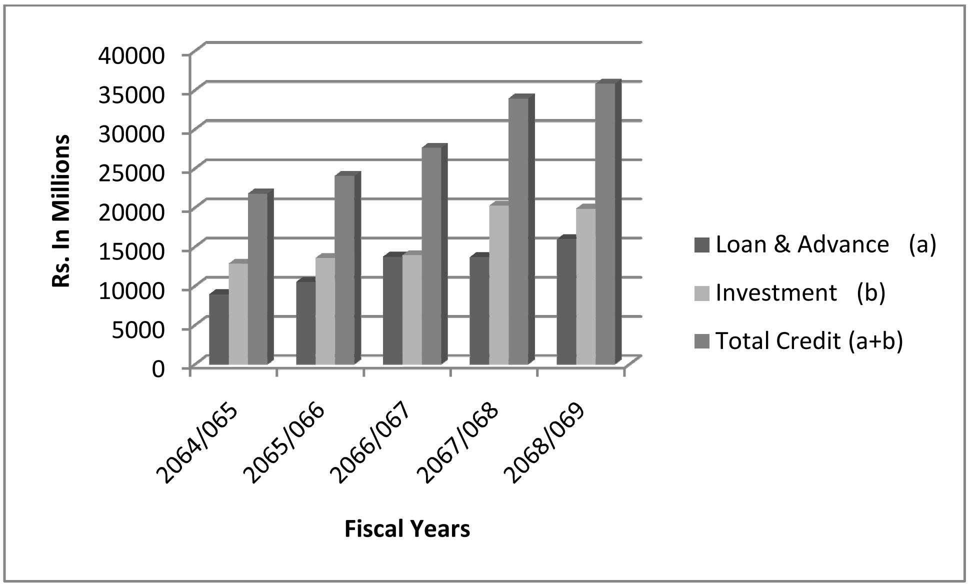
Year (B.S)	Loan & Advance (a)	Investment (b)	Total Credit (a+b)	% Changes
2064/065	8935.42	12838.55	21773.97	-
2065/066	10502.64	13553.23	24055.87	10.48
2066/067	13718.59	13902.82	27621.41	14.82
2067/068	13679.76	20236.12	33915.88	22.79
2068/069	15956.96	19847.51	35804.47	5.57

Source: Annual Reports of SCBNL from 2064/065 to 2068/069

The source table 4.5 shows the overall credit position of SCBNL. The components of total credit are loan and advance and investment, loan and advance is in increasing except the year 2066/067 and the investment is in also increasing trend except the year 2067/068. And the overall position of total credit is increasing trend over the study period. In the FY 2063/064 the amount of total investment is Rs. 21773.97 million and then the following yare total credit increase by 10.48, 14.82, 22.79 and 5.75% respectively than previous year. It is shown in the following year.

Figure: 4.10

Trend Loan & Advance, Investment & Total Credit Position of SCBNL



4.4 Credit Deposit Ratio

The total credit is the loan and advance and investment. Loan is the sum of the money that will be repay by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective is to increase future wealth.

$$\text{Credit deposit ratio (CD Ratio)} = \frac{Total\ Credit}{Total\ Deposit}$$

Table: 4.6

Computation of CD Ratio

Rs. In Millions

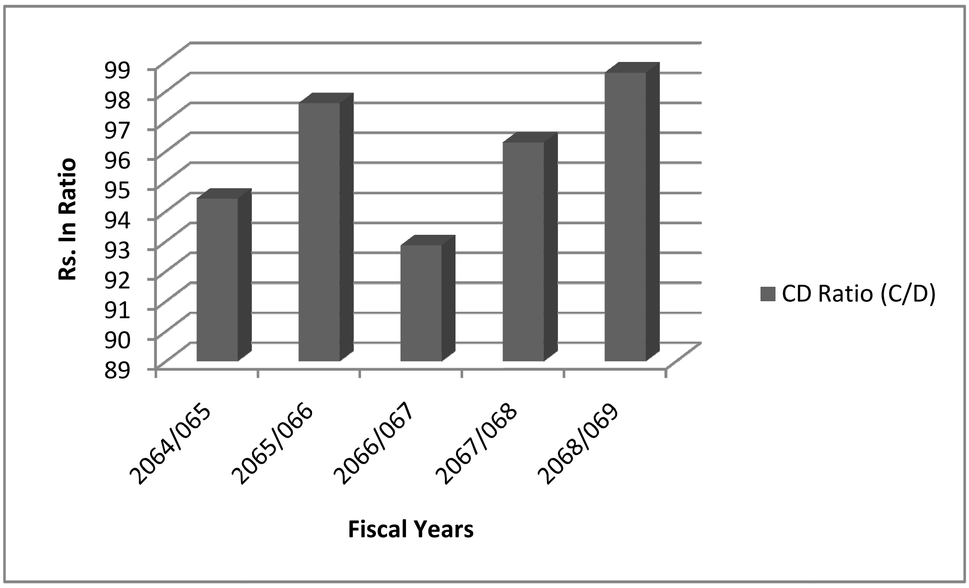
Year (B.S)	Total Credit (C)	Total Deposit (D)	CD Ratio (C/D)
2064/065	21773.97	23061.05	94.42
2065/066	24055.87	24647.01	97.6
2066/067	27621.41	29743.99	92.86
2067/068	33915.88	35224.1	96.29
2068/069	35804.47	35309.52	98.62

Source: Annual Reports of SCBNL from 2064/065 to 2068/069

Source table 4.6 it can be said that there is a greater relationship between deposits and credit. Increase in deposits leads to increase in the loan and advance, but immense increase in the deposits leads to a little bit increase in loan and advance. The above analysis shows that more than 90% of the deposited amount has been succeeded to mobilize the resources. Its highest ratio is 98.62 and lowest ratio is 92.86. The higher amount of deposit of this bank than credit is due to the constriction of this bank in deposit collection. The bank successes to attract people to deposit their savings. Higher the CD ratio indicates the more effective working policy of the bank. So that, higher utilization of the resources in the bank means good managing ideas or policy of the bank.

Figure: 4.11

Trend of CD Ratio



4.5 Profitability Ratio Analysis

Profitability ratios measure the overall performance of the bank by determining the effectiveness of the bank in generating profit and establishing relationship between profit and assets. Profitability ratio indicates the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the efficiency of the bank. Success and failure of the bank depends upon its profitability showing how efficiently it is utilizing its deposit, assets, equity etc. In this study to measure how effectively the firm is being operated and managed, return on loan & advance, return on total deposits, return on total assets and return on equity ratio are calculated.

Return on loan & advance measures the earning capacity of commercial banks on its deposits mobilized on loan and advances. Mostly loan and advances include loan, cash credit, overdrafts bills purchased and discounted.

Return on total deposits ratio reflects the extent to which the banks have been successful in mobilizing its total deposit. Total deposit of the bank is its creditor ship. The prior objective of the bank is collected more deposit and utilization in various sectors i.e. to earn high profit there by maximizing return on its total deposits.

Return on total assets ratio is calculated to reveal the profitability of the banks with respect to total assets. It measures the profitability of all financial resources invested in the bank's assets.

Net Profit margin ratio signifies the effectiveness of expenses management and cost control and gives the direction to the management for service pricing policies. It means how much of total revenue has been declared as net profit after all the charges are over up. The higher ratio means the management has been able to control its operational costs and maintain efficiency.

Table: 4.7

Profitability Ratios

Rs. In Percentage

Year (B.S)	ROLA (%)	ROTD (%)	ROTA (%)	ROTE (%)	NPM (%)
2064/065	7.37	2.86	2.56	37.55	37.6
2065/066	6.59	2.81	2.42	32.68	34.55
2066/067	5.97	2.75	2.46	32.85	34.94
2067/068	7.49	2.90	2.56	33.58	36.84
2068/069	6.80	3.09	2.70	32.22	36.47
Mean	**6.84**	**2.88**	**2.54**	**33.78**	**36.08**
S.D	**0.62**	**0.13**	**0.11**	**2.17**	**1.29**

Source: Appendix VII & VIII

During the study period of 5 years from 2063/64 to 2067/68, the highest return on loan & advance ratio of SCBNL is 7.49 percentages in 2066/67 and that of lowest is 5.97 percentages in 2065/66. It means the bank earned 7.49 percentages in 2066/67 and 5.97 percentage in 2065/66 by giving loan. Over the study period the loan & advance ratio of SCBNL is in fluctuating trend.

The highest return on total deposit ratio of SCBNL is 3.09 percentages in 2067/68 and that of lowest is 2.81 percentages in 2064/65. It means the bank earned 3.09 percentages in 2067/68 and 2.81 percentages in 2064/65 by utilizing deposit. Over the study period the return on total deposit ratio of SCBNL is in fluctuating trend.

The profitability earned by the bank from utilization of total assets and total equity of SCBNL is 2.56 percentages in 063/64, 2.42 percentages in 064/65 and then increasing up to 2.70 percentages in 067/68.it shows that the bank effectiveness in utilization of total assets is increasing each year.

Figure: 4.12

Trend of ROLA, ROTD & ROTA Ratios

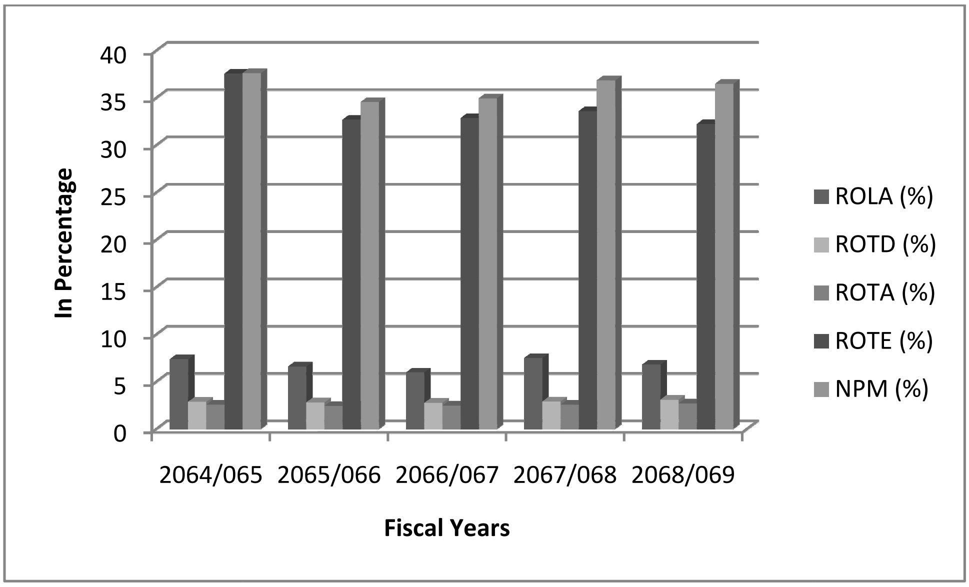
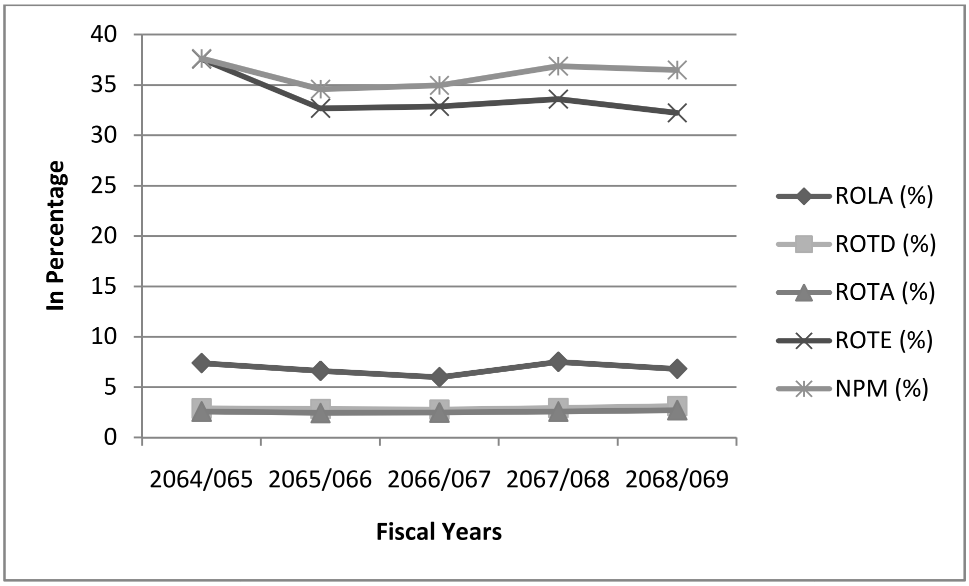


Figure: 4.13

Trend of NPM & ROTE Ratios



Source figure 4.13 shows that the highest return on total equity ratio of SCBNL is 37.55 percentages in 2063/64 and that of lowest is 32.22 percentages in 2067/87. The bank effectiveness in utilization of total equity is in fluctuating trend over the study period each year. The net profit margin of the bank is in increasing trend over the study period except the year 2068/0697.

4.6 Trend Analysis

Under this topic, trend analysis of deposit collection and its utilization of SCBNL are studied during the period of time. The objective of this topic is to forecast the total deposit and credit for the next five years.

4.6.1 Trend Analysis of Total Investment and Net Profit

Under this topic, trend values of the total investment and net profit of SCBNL, for the period of study has been calculated and forecasted for the next 5 years, from 2068/69 to 2072/73. The following table presents the trend value of the total investment and net profit.

Table: 4.8

Forecasted Trend Value of Total Investment and Net Profit

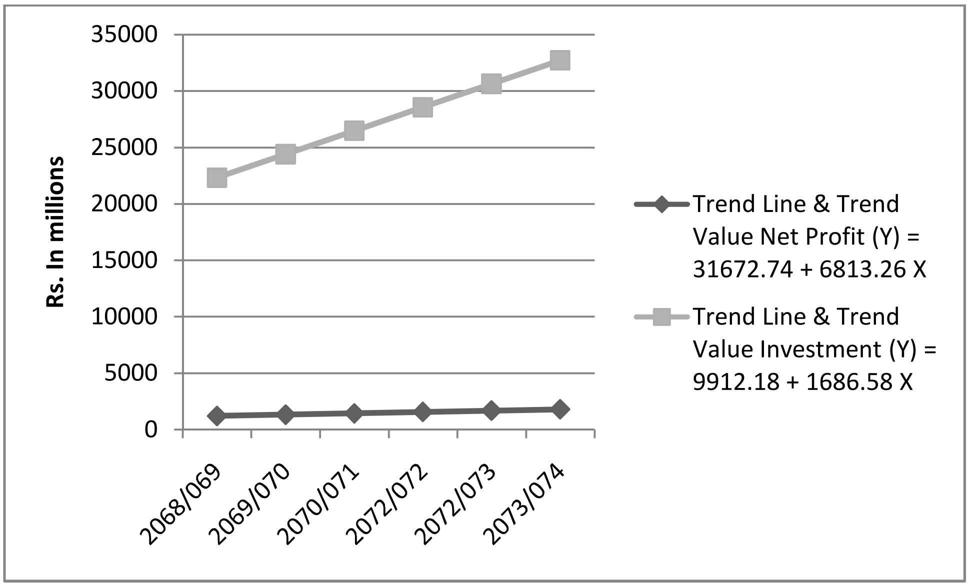
Rs. In Millions

Year (B.S)	**Trend Line & Trend Value**	
	Net Profit (Y) = 31672.74 + 6813.26 X	**Investment (Y) = 9912.18 + 1686.58 X**
2068/069	1212.365	22320.94
2069/070	1331.132	24397.43
2070/071	1449.899	26473.92
2072/072	1568.666	28550.41
2072/073	1689.433	30626.90
2073/074	1806.200	32703.39

Source: Appendix I, II & III

Figure: 4.14

Forecasted Trend Line of Total Investment and Net Profit



Source table 4.8 and figure 4.14 show the increasing trend of net profit and investment of SCBNL. ‘Y’ has shown the trend value of net profit. Since, the calculated value of ‘b’ is positive; it is found that the bank’s net profit is increasing with time. It shows that the net profit increasing by Rs. 118.767 million every year. On the basis of this calculation, it can be forecasted that the bank’s net profit will be Rs. 1212.365 million in the year 2068/69 and it will be Rs. 1806.2 million in the year 2072/073. Source figure 4.15 shows that ‘Y’ has shown the trend value of total investment. Since, the calculated value of ‘b’ is positive, it is found that the bank’s investment is increasing with time. It shows that the investment increasing by Rs. 2076.49 million every year. On the basis of this calculation, it can be forecasted that the bank’s total investment will be Rs. 22320.94 million in the year 2068/69 and it will be Rs. 32703.39 million in the year 2072/073.

4.7 Correlation Analysis

4.7.1 Correlation Coefficient between Total Deposit & Total Investment:- Correlation coefficient between total deposit and total investment measures the degree of relationship between total deposit and total investment. For the analysis of coefficient correlation, deposit is an independent variable (X) while investment is dependent variable(Y).

Table: 4.9

Correlation Coefficient between Total Deposit & Total Investment

Evaluation Criteria						
Name	r	r^2	P.E (r)	6 P.E (r)	Remarks	Relationship
SCBNL	0.937	0.879	0.052	0.313	Significant	High Degree of Positive Correlation

Source: Appendix IV

Source table 4.9 describes the relationship between total deposit and total investment during the period of study. The coefficient of correlation (r) between total deposit and investment is 0.937. This figure shows the positive association between deposit and investment. It means deposit and investment both move towards same direction.

The coefficient of determination (r^2) is 0.879 it shows that 87.9% of the variation in the dependent variable (i.e. total investment) has been explained by the independent variable (i.e. total deposit).

The value of P.E. (r) is 0.052 and 6.P.E (r) is 0.313. The value of correlation coefficient (r) is greater than six times of probable error. Therefore true value of 'r' is significant. It reveals that there is significant relationship between the deposit collection and investment extension.

There is positive relationship between total deposit and total investment. It shows that by increasing the deposit, the amount of investment can be increased. Therefore both the deposit and investment are very much interrelated. Thus it can be concluded that if the deposit is collected more, it increases the investment accordingly.

4.7.2 Correlation Coefficient between Total Investment & Net Profit: - Correlation coefficient between total Investment and net profit measures the degree of relationship between total Investment and net profit. For the analysis of coefficient correlation, investment is an independent variable (X) while net profit is dependent variable(Y)

Table: 4.10

Correlation Coefficient between Total Investment and Net Profit

Evaluation Criteria						
Name	r	r^2	P.E (r)	6 P.E (r)	Remarks	Relationship
NABIL	0.963	0.927	0.032	0.195	Significant	High Degree of Positive Correlation

Source: Appendix V

Source table 4.10 describes the relationship between total investment and net profit during the period of study. The coefficient of correlation (r) between investment and net profit is 0.963. This figure shows the high degree of positive association between investment and net profit. It means investment and net profit both move towards same direction.

The coefficient of determination (r^2) is 0.927 it shows that 92.7% of the variation in the dependent variable (i.e. net profit) has been explained by the independent variable (i.e. total investment).

The value of P.E. (r) is 0.032 and 6.P.E (r) is 0.195. The value of correlation coefficient (r) is greater than six times of probable error (6.P.E (r). Therefore true value of 'r' is significant. It reveals that there is significant relationship between the investment and net profit. There is positive relationship between total investment and net profit. It shows that by increasing the investment, the amount of net profit can be increased. Therefore both the investment and net profit are very much interrelated. Thus it can be concluded that if the increase in investment, it increases the net profit accordingly.

4.8 Major Findings

- The current deposit, saving deposit, fixed deposit and margin deposit are in fluctuating trend over the study period and the call deposit is in increasing trend over the study period.
- The total deposit of SCBNL is in increasing trend in FY 2064/065 the total deposit is Rs. 23061.05 million and then increase by 6.88% in the fiscal year 2065/066, 20.68% in FY 2066/067, 18.42% in FY 2067/068 and 0.24% in FY 2068/069.

- Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 27.65% in FY 2068/069 and the lowest ratio is 16.33% in the FY 2067/068. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 63.30% in FY 2063/64 and the lowest ratio is 35.20% in FY 2068/069. Similarly, the fixed deposit to total deposit ratio is in increasing trend except FY 2066/067. The highest FD to TD ratio is 25.98% in the FY 2068/069 and the lowest ratio is 9.26% in the FY 2064/065.
- The major sectors of investment are Nepal Govt. T-bills, Nepal Govt. Saving Bonds, and Nepal Govt. Other Securities, Local licensed Institutions, Foreign Banks, Corporate Share, and Corporate Debentures & Bonds.
- The investment trend in treasure bills is in fluctuating trend over the study period, the amount of investment in each year is Rs. 7210.5, 59995.10, 7157.73, 9050.99, 7878.57 respectively. Investments in foreign banks are Rs. 4190.34, 4603.35, 5675.04, 9895.71, 10844.95 million respectively in each year.
- Investment in the corporate share is in increasing trend over the study period and the investment in the corporate bond is only the fiscal year 2066/067 & 2067/068. Investment in Nepal government other securities is decreasing over the study period and other sector investment are in fluctuating trend over the study period. The total investment of SCBNL is in increasing trend over the study period except the year 2068/069.
- The components of total credit are loan and advance and investment, loan and advance is in increasing except the year 2066/067 and the investment is in also increasing trend except the year 2067/068. And the overall position of total credit is increasing trend over the study period.
- More than 90% of the deposited amount has been succeeded to mobilize the resources. Its highest ratio is 98.62 and lowest ratio is 92.86. The higher amount of deposit of this bank than credit is due to the constriction of this bank in deposit collection. Higher the CD ratio indicates the more effective working policy of the bank. So that, higher utilization of the resources in the bank means good managing ideas or policy of the bank.
- The highest return on loan & advance ratio of SCBNL is 7.49 percentages in 2066/67 and that of lowest is 5.97 percentages in 2065/66. It means the bank

earned 7.49 percentages in 2066/67 and 5.97 percentage in 2065/66 by giving loan.

- The highest return on total deposit ratio of SCBNL is 3.09 percentages in 2067/68 and that of lowest is 2.81 percentages in 2064/65. It means the bank earned 3.09 percentages in 2067/68 and 2.81 percentages in 2064/65 by utilizing deposit.
- The profitability earned by the bank from utilization of total assets and total equity of SCBNL is 2.56 percentages in 063/64, 2.42 percentages in 064/65 and then increasing up to 2.70 percentages in 067/68.
- The highest return on total equity ratio of SCBNL is 37.55 percentages in 2063/64 and that of lowest is 32.22 percentages in 2067/68.The bank effectiveness in utilization of total equity is in fluctuating trend over the study period each year.
- The net profit increasing by Rs. 118.767 million every year. On the basis of this calculation, it can be forecasted that the bank's net profit will be Rs. 1212.365 million in the year 2068/69 and it will be Rs. 1806.2 million in the year 2072/073.
- The investment increasing by Rs. 2076.49 million every year, it can be forecasted that the bank's total investment will be Rs. 22320.94 million in the year 2068/69 and it will be Rs. 32703.39 million in the year 2072/073.
- The coefficient of correlation (r) between total deposit and investment is 0.937. This figure shows the positive association between deposit and investment. The coefficient of determination (r^2) is 0.879 it shows that 87.9% of the variation in the dependent variable (i.e. total investment) has been explained by the independent variable (i.e. total deposit). The value of P.E. (r) is 0.052 and 6.P.E (r) is 0.313. The value of correlation coefficient (r) is greater than six times of probable error. Therefore true value of 'r' is significant.
- The coefficient of correlation (r) between investment and net profit is 0.963. This figure shows the high degree of positive association between investment and net profit. The coefficient of determination (r^2) is 0.927 it shows that 92.7% of the variation in the dependent variable (i.e. net profit) has been explained by the independent variable (i.e. total investment). The value of P.E. (r) is 0.032 and 6.P.E (r) is 0.195. The value of correlation coefficient (r) is greater than six times of probable error (6.P.E, r). Therefore true value of 'r' is significant.

CHAPTER- V

SUMMARY, CONCLUSION & REOCMMENDATION

In this chapter, summary and conclusion of the research as well as recommendations are presented separately. After summarizing and concluding the research, recommendations are suggested for the effective utilization of fund to generate high profit. The researcher has tried to give suggestions and recommendations to the SCBNL based on this research.

5.1 Summary

The economic development of every country is always measured by its economic indicators. Therefore, every country has given emphasis on the development of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals with the process of channeling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are necessity to collect scattered savings and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the country.

Banks today are under great pressure to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank’s policies, loans, and investments are sound. The majority of the needs of the stakeholders are related with the investment and profitability of the banks. Thus, the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit. In this age of great competition, only the profitable banks can sustain for a long time. Financial policies of any concern are directly or indirectly influenced by its investment and profitability. Thus, it is a base for a bank’s survival, growth and expansion.

Investment and Profitability analysis is one of the key tools for financial decision and assist in making plan before using sophisticated forecasting and budgeting procedure. The value of this approach is the quantitative relation, which can be used to diagnose strengths and weakness in a bank performance. Such analysis is considerable things for the bank's common stock holders, investors, bondholders and others. The objective of the study is to find out and analyze the impact of investment on profitability Position of SCBNL. To fulfill the main objectives following specific objectives are formulated.

- To find out the trend of investment, deposit and profitability of SCBNL.
- To analyze the pattern of investment of SCBNL.
- To analyze the relationship between investment with Profitability and comparison between them.
- To find out the different types of profitability ratios and interpret them.

To fulfill these objectives, the whole study comprised of the five different consecutive parts as mentioned.The first chapter comprises of general background, focus of the study, brief profile of the banks under study, significance of the study, objectives of the study, limitations of the study and organization of the study.

In the second chapter, reviewing of the various literatures, definitions and concept of investment and profitability are included.This also consists of the review of the related studies, journals, articles and review of books concerned to investment and profitability.
The third part consists of the research design, total population and sample of the study, nature and sources of the data, data collection procedures and the analytical tools and techniques used in the study.

The fourth part constitutes the tabular and graphical representation of the collected data, their interpretation and analysis using various financial as well as statistical tools. Apart from it, summary of the major findings are also presented at the end of the chapter.

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

5.2 Conclusion

It can be concluded from the observance and analysis of above data the SCBNL should move as per the direction given by the central bank. Bank should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial banks to live in the industry. Higher the deposit higher will be the chance of the mobilization of working fund and profit there to. Bank should invest in different sector very carefully, while advancing loan because loan is the blood of commercial banks for survival. If commercial banks do not apply sound investment policy it will be in great trouble in future to collect it in time. Hence the possibility of bankruptcy there too. Bank should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations, there is high chance of default risk. Diversifications are indeed need to all the business houses but it has seen immense importance to commercial banks. Diversification of investment is very much important to commercial bank than other business houses because banks use the money to other people for the benefit of its own. And lastly is can be said that banks are important for the nation. It helps in the capital formation to the nations, which is the most important element for the economic growth of the country.

Profit is lifeblood of each type of business. Every business organization should earn profits to survive and grow over the long period of time. Obviously, organization will have no future if it is unable to make reasonable profit from its operation. As a matter of fact, the overall efficiency of an organization is reflected in its profits. Profits to the managements are the test of efficiency and a measurement of control: to the owners, a measure of worth of their investment; to the creditors, the margin of safety to the employees; a source of fringe benefits to the Government, a measure of fixed paying capacity and the basis of legislative action; to customers, a hint to demand for better quality and price cuts; to a bank, less burden some source if finance existence and finally to the country, profit are index of economic progress. Thus, if an organization fails to make profit, capital invested erodes and if this situation prolongs it ultimately cease to exist.

5.3 Recommendation

Suggestions are the output of the whole study. It helps to take corrective action in the activities in future. Different analyses are done to arrive at this step. On the basis of above analysis and findings of the study following suggestions and recommendations may be referred to overcome weakness, inefficiency to investment and profitability and for corrective action for the concern authorities and other researchers.

- In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients. They should treat every client equally. They should bring different schemes to focus the customers like, increase interest rate, bank credit policies, bank loan insurance policies, evening counters, social responsibilities etc.
- The bank should initiate a good step for maintaining the increasing trend of deposit collection as well as mobilization of it. The bank should launch several customer oriented programs to raise the deposits in satisfied rate. For this purpose, the foremost step to be take is the bank can increase the interest rate on deposit and further it can launch several latest technologies in the banking field like Credit Cards, e-banking etc.
- The Bank should find out new areas/sectors for investing collected deposits from which it can generate maximum profit. In context of present scenario of the country, health and education can be considered as the best sector for investment, which are more secure and can generate a reasonable profit.
- Majority of commercial banks have been found to be profit oriented ignoring their social responsibility, which is not a proper strategy to sustain in long run. So all the banks are suggested to render their serves even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the goodwill of the banks in future.
- The liberal policy of NRB to establish new financial institution and bank, branch is challenging to the profit the banks which also promoting unhealthy competition. So Nabil is suggested to make a fair competition in the market and should adopt the policy to live and let to live others which make them to compel to think the optimum policy in turn.
- Ethics of staff impresses the customers and create interest to improve the performance of the company. Hence, full co-peration from staff must be obtained. Customers satisfactions are affected by the services provided by the bank, which will effect the collection of deposits. The bank should also provide the training programmed to the employees for the professional development.

- Since the national economy is approaching towards recession period, all the financial institutions should work towards improving the economic development of the country. The financial institutes should encourage internal business, industries and export rather than imports, so as to reduce the outflow of currencies.
- The bank has to create the conductive environment for the revival of sick investment and has to analyze the necessity of Mobilizing additional resource to revive the overall banking sector.
- Further studies can be conducted by using others organization as sample, by using other sophisticated tools and techniques, by using other aspects as well.

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Appendix I

Trend Analysis of Net Profit

The trend line Y = a +bX -- (A)

Let's assume that middle year be 3, then X = t – 3

Year	t	Total Deposit (Y)	X= t-3	XY	X^2
2064/065	1	658.76	-2	-1317.52	4
2065/066	2	691.66	-1	-691.66	1
2066/067	3	818.92	0	0	0
2067/068	4	1025.11	1	1025.11	1
2068/069	5	1085.87	2	2171.74	4
Total		**$\sum y$=4280.32**	**$\sum X$=0**	**$\sum xy$=1187.67**	**$\sum x^2$=10**

Since, $\sum X = 0$

The two normal equations obtained from the above equations will be

$\sum Y = na$ -------------------------------------- (i)

$\sum XY = b\sum X^2$ -------------------------------- (ii)

Since, n = number of years under study = 5, the value of 'a' and 'b' can be calculated by solving equation (i) and (ii).

From equation (i)

$\sum Y = na$

Or, $4280.32 = 5 \times a$

Or, $a = 856.064$

Again, from equation (ii)

$\sum XY = b\sum X^2$

Or, $1187.67 = b \times 10$

Or, $b = 118.767$

Now, putting the value of 'a' and 'b' in the equation of trend line (A),

$Y = a + bX$

Or, $Y = 856.064 + 118.767X$

Appendix II

Trend Analysis of Total Investment

The trend line Y = a +bX -- (A)

Let's assume that middle year be 3, then X = t – 3

Year	t	Total Investment (Y)	X= t-3	XY	X^2
2064/065	1	12841.55	-2	-25683.1	4
2065/066	2	13556.23	-1	-13556.23	1
2066/067	3	13927.2	0	0	0
2067/068	4	20260.5	1	20260.5	1
2068/069	5	19871.89	2	39743.78	4
Total		**$\sum$ y=80457.37**	**$\sum$ X=0**	**$\sum$ xy=20764.95**	**$\sum x^2$=10**

Since, $\sum X = 0$

The two normal equations obtained from the above equations will be

$\sum Y = na$ -------------------------------------- (i)

$\sum XY = b\sum X^2$ ------------------------------- (ii)

Since, n = number of years under study = 5, the value of 'a' and 'b' can be calculated by solving equation (i) and (ii).

From equation (i)

$\sum Y = na$

Or, $80457.37 = 5 \times a$

Or, $a = 16091.47$

Again, from equation (ii)

$\sum XY = b\sum X^2$

Or, $20764.95 = b \times 10$

Or, $b = 2076.49$

Now, putting the value of 'a' and 'b' in the equation of trend line (A),

$Y = a + bX$

Or, $Y = 16091.47 + 2076.49 X$

Appendix III

Forecasted Trend Value of Total Investment and Net Profit

Year	X	Trend Line & Trend Value	
		Net Profit (Y) = 31672.74 + 6813.26 X	**Investment (Y) = 9912.18 + 1686.58 X**
2068/069	3	856.064 + 118.767 × 3= 1212.365	16091.47 + 2076.49 × 3= 22320.94
2069/070	4	856.064 + 118.767 × 4= 1331.132	16091.47 + 2076.49 × 4= 24397.43
2070/071	5	856.064 + 118.767 × 5= 1449.899	16091.47 + 2076.49 × 5= 26473.92
2072/072	6	856.064 + 118.767 × 6= 1568.666	16091.47 + 2076.49 × 6= 28550.41
2072/073	7	856.064 + 118.767 × 7= 1689.433	16091.47 + 2076.49 × 7= 30626.90
2073/074	8	856.064 + 118.767 × 8= 1806.200	16091.47 + 2076.49 × 8= 32703.39

Appendix IV

Calculation for Mean value, & Correlation between Total Deposit & Total Investment of SCBNL

Year	Deposit (X_1)	Investment (X_2)	$x_1=X_1-\bar{x}_1$	$x_2=X_2-\bar{x}_2$	$x_1 . x_2$	x_1^2	x_2^2
2064/065	23,061.05	12841.55	-6,536.08	-3,249.92	21,241,776.26	531,812,027.10	164,905,406.40
2065/066	24,647.01	13556.23	-4,950.12	-2,535.24	12,549,772.17	607,475,101.94	183,771,371.81
2066/067	29,743.99	13927.2	146.86	-2,164.27	-317,836.62	884,704,941.12	193,966,899.84
2067/068	35,224.10	20260.5	5,626.97	4,169.03	23,458,967.56	1,240,737,220.81	410,487,860.25
2068/069	35,309.52	19871.89	5,712.39	3,780.42	21,595,195.43	1,246,762,202.63	394,892,012.17
N_1 = 5 **N_2 = 5**	$\sum X_1$ = 147985.67	$\sum X_2$ = 80457.37	0.00	0.00	$\sum x_1.x_2$ = 78,527,874.79	$\sum x_1^2$ = 4,511,491,493.60	$\sum x_2^2$ = 1,348,023,550.48

For Total Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} \quad = \frac{147985.67}{5} \quad = 29597.13$$

For Investment,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} \quad = \frac{80457.37}{5} \quad = 16091.47$$

Correlation between Deposit & Investment,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum {x_1}^2 \sum {x_2}^2}}$$

$$= \frac{78,527,874.79}{\sqrt{4,511,491,493.60 \times 1,348,023,550.48}} \quad = 0.937$$

$r^2 = 0.937^2 = 0.879$

For Probable Error,

$$\text{PE} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} = 0.6745 \times \frac{1 - 0.0.937^2}{\sqrt{5}} = 0.052 \text{ 0r } 5.2\%$$

$6PE = 6 \times 0.052 = 0.313$

Appendix V

Calculation for Mean value & Correlation between Total Investment & Net Profit of SCBNL

Year	Investment (X_1)	Net Profit (X_2)	$x_1=X_1-\bar{x}_1$	$x_2=X_2-\bar{x}_2$	$x_1 . x_2$	x_1^2	x_2^2
2064/065	12841.55	658.76	-3,249.92	-197.30	641,223.00	164,905,406.40	433,964.74
2065/066	13556.23	691.66	-2,535.24	-164.40	416,804.25	183,771,371.81	478,393.56
2066/067	13927.2	818.92	-2,164.27	-37.14	80,389.79	193,966,899.84	670,629.97
2067/068	20260.5	1025.11	4,169.03	169.05	704,757.17	410,487,860.25	1,050,850.51
2068/069	19871.89	1085.87	3,780.42	229.81	868,762.28	394,892,012.17	1,179,113.66
$N_1 = 5$ $N_2 = 5$	$\sum X_1 =$ **80,457.37**	$\sum X_2 =$ **4,280.32**	**0.00**	**0.00**	$\sum x_1.x_2 =$ **2,711,936.50**	$\sum x_1^2 =$ **1,348,023,550.48**	$\sum x_2^2$ **3,812,952.43**

For Total Investment,

$$\text{Mean } (\overline{X}) = \frac{\sum X_1}{N_1} = \frac{80,457.37}{5} = 16091.47$$

For Net Profit,

$$\text{Mean } (\overline{X}) = \frac{\sum X_2}{N_2} = \frac{4,280.32}{5} = 856.06$$

Correlation between Total Investment & Net Profit,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{2,711,936.50}{\sqrt{1,348,023,550.48 \times 3,812,952.43}} = 0.963$$

$r^2 = 0.963^2 = 0.927$

For Probable Error,

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{N}} = 0.6745 \times \frac{1 - 0.963^2}{\sqrt{5}} = 0.032 \text{ 0r } 3.2\%$$

$6PE = 6 \times 0.032 = 0.195$

Appendix VI

Computation of Percentage Investment of SCBNL

Sector	2064/065		2065/066		2066/067		2067/068		2067/08	
	Rs.	**%**	**Rs.**	**%**	**Rs.**	**%**	**Rs.**	**%**	**Rs.**	**%**
Nepal Govt. T-bills	7210.5	56.1	5995.10	49.2	7157.73	51.4	9050.99	44.7	7878.57	39.6
Nepal Govt. Saving Bonds	1296.54	10.1	1046.07	8.7	917.15	6.6	917.15	4.6	648.15	3.3
Nepal Govt. Other Securities	128.83	1.32	66.76	0.5	62.73	0.5	30.62	0.1	4.79	-
Local licensed Institutions	-	-	-	-	-	-	250.61	1.3	380.0	1.9
Foreign Banks	4190.34	32.6	4603.35	41.0	5675.04	40.7	9895.71	48.8	10844.95	54.6
Corporate Share	15.34	0.2	44.94	0.3	106.04	0.8	106.93	0.5	106.93	1.0
Corporate Debentures & Bonds	-	-	-	-	8.49	0.1	8.5	-	-	-
Total Investment	**12841.55**		**13556.23**		**13927.2**		**20260.5**		**19871.89**	
Less: Provisions	3.00		3.00		24.37		24.38		24.37	
Net Investments	**12838.55**		**13553.23**		**13902.82**		**20236.12**		**19847.51**	

$$\text{Percent Amount} = \frac{Sector\ Wise\ Amount}{Total\ Amount}$$

Appendix: VII

Computation Of Return On Loan & Advance Ratio And Return On Total Deposit Ratio of SCBNL

Year	Total Deposit (TD)	Loan & Advance (LA)	Net Income (NI)	Return On Loan & Advance (ROLA = NI/LA)	Return On Total Deposit (ROTD = NI/TD)
063/64	23061.03	8935.42	658.76	7.37%	2.86%
064/65	24647.02	10502.64	691.67	6.59%	2.81%
065/66	29743.99	13718.6	818.92	5.97%	2.75%
066/67	35350.82	13679.76	1025.11	7.49%	2.90%
067/68	35182.72	15956.95	1085.87	6.80%	3.09%

Appendix: VIII

Computation Of Return On Total Assets Ratio And Return On Total Equity Ratio of SCBNL

Year	Net Income (NI)	Total Assets (TA)	Total Equity (TE)	Return On Total Assets (ROTA = NI/TA)	Return On Total Equity (ROTE = NI/TE)
063/64	658.76	25767.35	1754.13	2.56	37.55
064/65	691.67	28596.69	2116.35	2.42	32.68
065/66	818.92	33335.79	2492.54	2.46	32.85
066/67	1025.11	40066.57	3052.47	2.56	33.58
067/68	1085.87	40213.32	3369.71	2.70	32.22