CHAPTER - I

INTRODUCTION

1.1 Background of the Study

1.1.1 Origin of Banking

Banking, the business of providing financial services to consumers and businesses. The basic services of a bank provides are checking accounts, which can be used like money to make payments and purchase goods and services; savings accounts and time deposits that can be used to save money for future use; loans that consumers and businesses can use to purchase goods and services; and basic cash management services such as check cashing and foreign currency exchange. Four types of banks specialize in offering these basic banking services: commercial banks, savings and loan associations, savings banks, and credit unions.

A broader definition of a bank is any financial institution that receives, collects, transfers, pays, exchanges, lends, invests, or safeguards money for its customers. This broader definition includes many other financial institutions that are not usually thought of as banks but which nevertheless provide one or more of these broadly defined banking services. These institutions include finance companies, investment companies, investment banks, insurance companies, pension funds, security brokers and dealers, mortgage companies, and real estate investment trusts.

Banking services are extremely important in a free market economy. Banking services serve two primary purposes. First, by supplying customers with the basic mediums-of-exchange (cash, checking accounts, and credit cards), banks play a key role in the way goods and services are purchased. Without these familiar methods of payment, goods could only be exchanged by barter (trading one good for another), which is extremely time-consuming and inefficient. Second, by accepting money deposits from savers and then lending the money to borrowers, banks encourage the flow of money to productive use and investments. Without this flow, savings would sit idle in someone’s safe or pocket, money would not be available to borrow, people would not be able to purchase goods and services and businesses would not be able to build the new factories the economy needs to produce more goods and grow. Enabling the flow of money from savers to investors is called financial intermediation, and it is extremely important to a free market economy.

Economic development is the most important factor for the development of the country. Nepal is one of the least developed countries in the world. There are many reasons for the least development of the nation. Mainly, there are three types of economy adopted by the nations in the world. The first one is called Capitalist economy; in which, the private sector does all the things (except national defence, promotion of the nationality, etc) in competitive market. Government collects the tax from private sector and invests in the field of infrastructure development. For example: Japanese, American economy. The second one is called Central economy. It is also called the Socialist economy, in which, the central government holds the authority of all the things and manages the minimum requirements for the people. The government runs trade and industry by itself. For example: Cuba, North Korea's economy. And the third and last one is called Mixed economy, in which, both the private and the public sector does something for their mutual benefit and overall development of the state. This type of economy has both characteristics like the Capitalist economy and the Socialist economic. For example: Nepalese, Indian, Indonesian economy.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of a country. No function is more important to the economy and its constituent part than financing. Bank assists both the flow of goods and service from the products to the consumers and the financial activities of the government. Banking provides the country with a monetary system of making payment and is in important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the country.

The importance of the banking as the nerve centre of economic development can’t be over emphasized and it is said that bank which are the need of and great wealth of country have get to be kept very scared. Just as water of irrigation, good banks are for the country’s industry and trade. The development of a country is always measured by its economic development through economic indices. Therefore, every country has been giving emphasis on mobilization of its economy. These days, the financial institutions are viewed as catalyst in the process of the economy growth. The domestic resources are key factors in the economic development of a country. Financial institutions act as intermediaries by transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, commercial banks and other financial intermediaries play an important role for the development of a country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial and economic activities of a country. These will provide full to the development practices of a country. The economic activities of a country can hardly be carried forward without the assistance of financial institutions. They are the crucial part of the development process. It is the fact that the unorganized financial system leads the country nowhere. Therefore, central bank plays a major role on keeping the financial system of a country organized by providing those guidelines and directives.

1.1.2 Historical Development of Bank in Nepal

Finance industry in Nepal basically two component - banking and non – banking sector. The banking sector includes the commercial banks while cooperatives, Grameen banks, development banks, finance companies and NGO's make up the non – banking sector.

Commercial banks are the components of the banking sector of Nepalese finance industry. In Nepal, for a very long time the banking sector was dominated by banks managed by government. The history of modern bank started after the establishment of Nepal Bank Limited (NBL), the first bank in the country in 1937 AD with large shareholding of the general public. The NBL dominated the financial sector of the country for almost 30 years without any compotator. However, the NBL was not able to provide services all over the country. With the political freedom in 1951; a planned development process started in the country. The first development plan of the country was formulated in 1956 AD. At the same time, it was felt that there is a need of a central bank to regulate the money supply and help banking development in the country.

Governments create central banks to perform a variety of functions. Central banks serve as the government's banker, as the banker to the banking system, and as the policymaker for monetary and financial matters. Accordingly, Nepal Rastra Bank (NRB); the central bank of the county was established in 1956 under the NRB Act 1955. It undertook the responsibility of the establishing and developing commercial banks in the country. The second commercial bank; Rastriya Banijaya Bank (RBB), was established in 1966 with total government control. Those two commercial banks operated on the model of banks in India.

After the restoration of democracy, Nepal has adopted more liberal and open economic policies. Reforms introduced in the financial sector in early 1980s have led to some significant improvements including interest rate liberalization, removal of entry restriction for establishing the commercial banks and insurance companies in the private sector. Until 1984, there were two governments owned commercial banks in operation, but after initiation of liberal economic policies, a provision was made for the establishment of commercial banks with foreign collaboration. As a result, Nepal Arab Bank Limited (NABIL) was established in 1984 as a first joint venture bank. In

1985 and 1986, two other joint venture banks namely, Nepal Indosuez Bank Limited (Which is now knows as Nepal Investment Bank Limited, NIBL) and Nepal Grindlays Bank Limited (Which is now known as Standard Chartered Bank Nepal Limited, SCBNL) started their operations. The open and liberal policy in the financial sector has helped in establishing many banks and financial institutions in the country. At present 32 commercial banks, 69 financial institutions, 88 development banks, 16 rural micro finance development banks, and 26 saving & credit cooperative societies are licensed by Nepal Rastra Bank until FY 2068-2069 (NRB **Banking and Financial Statistics**)

Commercial banks play an important part for the economic development of a country as they provides capital for the development of industry, trade and business by investing the saving collected as deposits from the public; they vender various services to their customer to develop their economic and social life. Therefore, a competitive and reliable banking system is essential to every country to develop.

A joint venture is farming of two forces between two or more enterprises for the purpose of carrying out a specific operation. Joint venture banks are the commercial banks formed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, industry and business as well as in the form of negotiation between various group of industries or traders to advice mutual exchange of goods and services. Joint venture banks are the mode of trading to advice mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between Nepalese investors, financial and non-financial institutions as well as private investors and their parents' banks each supplying some percentage of investment. The parent banks which has experiences in highly merchandised and efficient modern banking services in many parts of the world have come to Nepal with higher technology, advance management skills. Joint venture banks are established by joining difference forces and with ability to achieve a common goal with each of the partners. They are more efficient and effective monetary institution in modern banking fields than other old types of band in Nepalese context. The primary objective of the joint venture banks is always to earn profit by investing or granting the loan and advances to the people associate with trade, business, industry etc. that means they are required to mobilize their resources properly to acquire profit. How well a bank manages in investment has great deal to do with the economic health of the country because the bank loans support the growth of economic activities of the country.

Joint venture banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. Since, these banks are new, urban based and managed by foreign management they started their operation with automated system which could easily attract the elite group of business community due to their prompt service with modern management. In this way, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promoted and expand export – import trade, introduce new techniques and technologies. All these reveals vital role and need of joint venture in Nepalese banking sector or financial service industry. This study will focus on fund mobilizing policy of leading joint venture commercial banks Standard Chartered Bank Nepal Limited (SCBNL), Nepal Investment Bank Limited (NIBL) .

1.1.3 Introduction of SCBNL& NIBL

Standard Chartered Bank group had received ownership over ANZ Nepal Grind lays Bank Limited (NGBL) at 2057-4-17 B.S. As a result, it has been operating its service under the name of Standard Chartered Bank Nepal Limited (SCBNL). It has been performing commercial banking activities and providing banking services to customers from eight different branches in the country. It serves both Consumer and Wholesale Banking customers. Consumer Banking provides credit cards, personal loans, mortgages, deposit taking and wealth management services to individuals and small to medium sized enterprises. Wholesale Banking provides corporate and institutional clients with services in trade finance, cash management, lending, securities services, foreign exchange, debt capital markets and corporate finance. Standard Chartered is well-established in growth markets and aims to be the right partner for its customers. The Bank combines deep local knowledge with global capability. The Bank is trusted across its network for its standard of governance and its commitment to making a difference in the communities in which it operates. It is listed in Nepal Stock Exchange. After getting approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- Standard Chartered Grindlays Ltd., Australia is holding 50% of the capital.
- Standard Chartered Bank, U.K. Is holding 25% of the capital (bought from Nepal Bank Limited).
- The remaining 25% is holding by the Nepalese / General Public.

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Limited, was established in 1986 as a joint venture between Nepalese and French partners. The

French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2010 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. Upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital.
- Rastriya Banijya Bank holding 15% of the capital.
- Rastriya Beema Sansthan holding 15% of the capital.
- The General Public holding 20% of the capital.

1.2 Focus of the study

General investment policy means to flow the cash in different sectors at profit motive. Investment in its broadest sense means the sacrifice of certain present value for (possibly uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of other for their use, in return for a proper instrument entitling the holders to fixed income payment or the participation in expected profits. It can define the terms of investment at manufacturing and trading forms those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, there by producing an increased return over a period. Experts define the terms of investment from economic view point that investment as a productive process by means of which additional are made to capital equipments. It is finding various definitions of terms of investment at different points of view. But it needs to clear the terms of investment in financial point of view as related to this study.

In the study of the financial institution, the investment and investment problem will rotate around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further source of income. Thus, resources in such a way as to make it work for providing benefits to the owners by increasing the total assets, simultaneously providing benefits to the supplier of the funds by letting the third party to use such resources. However, the investment needs be procedural task. It must follow a definite investment process. This definitely begins from the formulation of proper investment policy.

In this study, three commercial banks are chosen for study. This study will analyze the Standard Chartered Bank Nepal Limited (SCBNL) with other One commercial banks Nepal Investment Bank Limited (NIBL) on their fund mobilizing activities by taking five years data from the year–ended 2064 / 065 to 2068/069 (F.Y. 2008 to 2012). Because of strong position in the market of banking activities of SCBNL, it is compared SCBNL with NIBL. All types of fund mobilizing and investment activities of SCBNL , NIBL compared and analyzed in this study.

1.3 Statement of the Problem

Fund mobilizing is the most important factor from a bank's management point of view. As we know, several joint venture banks have been established in our country within short period of time. Sufficient return cannot earn without adapting a strong, stable and appropriate investment policy followed by commercial banks. Due to high competition of financial environment, banks seems to be ready to grant much more loan, advance and other facilities against their client's insufficient deposits. Unsecured loan and investment may cause the liquidation of those commercial banks. If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes lose its principle. Investment policy may differ from one Joint venture bank to another but there is no optimum utilization of shareholder's fund to have greater return in any bank. Nepal Rastra Bank has also played important role to make commercial bank mobilize their fund in good sector for this purpose. NRB has imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. In this study, investment policy of SCBNL is analyzed and compared with other commercial banks NIBL. As mention above, following are the major problems.

- Commercial Banks are considered efficient but how far they efficient?
- State the relationship of investment and loan & advances with total deposits and total net profit
- Whether these commercial banks are able to meet obligations?
- Is SCBNL's investment policy more effective and efficient than the NIBL ?
- Effect of investment decision to the total earnings.
- Is SCBNL investment strategy successful to utilize its available fund in comparison to the NIBL ?
- Are they maintaining sufficient liquidity position?

This study attempts to analyze the investment policy of Standard Chartered Bank Nepal Limited compared with Nepal Investment Bank Limited by using various measuring financial and statistical tools.

1.4 Objectives of the study

The main objective of this study is to analyze, examine and interpret the investment policy adopted by the SCBNL and compare the same with the NIBL to achieve these prime objectives. SCBNL has adopted its own fund mobilizing policy to mobilize its fund in different sector and its investment decision criteria as well as policies may or may not be more efficient in comparison with other two commercial bank in Nepal. The following objectives are also considered in the study.

- To discuss fund mobilization and investment policy of SCBNL in respect to its fund balance sheet transaction with NIBL .
- To evaluate the liquidity, efficiency and profitability and risk position.
- To analyze the trends of deposits utilization towards total investment, loan & advances and its projection for next five years.
- To conduct hypothetical test to find whether there is significant difference between the various important ratios of SCBNL with the ratio of NIBL.
- To provide packages of workable suggestions and possible guide improve investment policy of SCBNL and the other compare banks based on the finding of the analysis for the improvement of financial performance of SCBNL.

1.5 Limitation of the study

This study attempts to analyze the investment policy of Standard Chartered Bank Nepal Limited (SCBNL) compared with Nepal Investment Bank Limited (NIBL) . Every study has its own limitations. This study is also no an exception. This study is limited by the following factors:

2 This study is carried out on the basis of mostly the published financial documents such as balance sheets, profit & loss accounts, related journals, magazines and books. These published documents have their own limitations.

3 The study is concerned only a period of five years from the year 2065/066 to 2068/069(F.Y. 2008 to 2012) and conclusion will be drawn from the above period.

4 The study is focused on the Standard Chartered Bank Nepal Limited compared with Nepal Investment Bank Limited only. Thus, the conclusion may not be applicable to other commercial banks of Nepal exactly.

5 There may be many factors that may affect investment decision and valuation of the firm. However, only these factors which will be related with investment policy are considered in this study.

5.3 Organization of the study

The study is based on primary and secondary data collection from concerned banks, NRB, NEPSE, website of the bank and other financial consultancies and institutions. The study is organized into mainly five chapters.

chapter -I : Introduction

The first chapter is an Introduction chapter. It is included background of the study, need of the study, statement of the problem, focus of the study, objective of the study and limitations of the study.

chapter-II : Review of Literature

The second chapter is review of literature. It is included the conceptual framework, review of books, review of previous study, research paper & published articles and unpublished thesis of TU.

chapter-III : Research Methodology

The third chapter is related in Research Methodology. It is included the introduction, research design, sources of data, population and sample, analysis the financial ratios, and other statistical analysis.

CHAPTER – IV: DATA PRESENTATION AND ANALYSIS

The forth chapter is related in data presentation and analysis. It is included financial analysis, statistical analysis and major findings of the study.

CHAPTER –V: SUMMARY, CONCLUSION AND RECOMMENDATION

The fifth and last chapter is related with summery, conclusion and recommendation.

CHAPTER - II

REVIEW OF LITERATURE

The field of investment is extremely great. Proper utilization of collected fund played a vital role in development of country. Effective investment decision rejoices to every investor giving precious return. This unit of study tries to describe the conceptual framework, concept of commercial bank, joint venture bank and investment. Besides these, this chapter highlights the literature that is available in concerned subject as to my knowledge, review of reports related to concern bank, review of research works, review of books, review of articles and relevant study on this topic and review of thesis works performed previously.

2.1 Conceptual Framework

2.1.1 Commercial Bank

"The commercial bank has its own role and contribution in the economic development. It is a source for the economic development, it maintain economic confidence of various segments & extends credit to people." (Ronald Grywinshki, **The new function banking,** Harvard business review 1991: 87)

"Commercial Bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services." (**Principle of Bank Operations,** American Institute of Banking, USA 19972**:** 345)

"A commercial banks one which exchanges money, deposits money, accepts deposits, grants loans and performs. Commercial banking functions and which is not a bank meant for cooperative, agriculture, industries for such specific purpose" (**Commercial Bank Act 1974)**

Commercial banks are so named because they specialize in loans to commercial and industrial businesses. Commercial banks are owned by private investors, called stockholders, or by companies called bank holding companies. The vast majority of commercial banks are owned by bank holding companies. The bank holding company form of ownership became increasingly attractive for several reasons. First, holding companies could engage in activities not permitted in the bank itself—for example, offering investment advice, underwriting securities, and engaging in other investment banking activities. But these activities were permitted in the bank if the holding company owned separate companies that offer these services. Using the holding company form of organization, bankers could then diversify their product lines and offer services requested by their customers and provided by their European counterparts. Second, many states had laws that restricted a bank from opening branches to within a certain number of miles from the bank's main branch. By setting up a holding company, a banking firm could locate new banks around the state and therefore put branches in locations not previously available.

Commercial banks are "for profit" organizations. Their objective is to make a profit. The profits either can be paid out to bank stockholders or to the holding company in the form of dividends, or the profits can be retained to build capital (net worth). Commercial banks traditionally have the broadest variety of assets and liabilities. Their historical specialties have been commercial lending to businesses on the asset side and checking accounts for businesses and individuals on the liability side. However, commercial banks also make consumer loans for automobiles and other consumer goods as well as real estate (mortgage) loans for both consumers and businesses.

"A bank whose primary business is providing financial services to companies is a commercial bank." (**Microsoft Encarta Reference Library** 2011)

2.1.2 Banking Services

Commercial banks offer various services to their customers. These services fall into three major categories: deposits, loans, and cash management services.

a. Deposits

There are four major types of deposits: demand deposits, savings deposits, hybrid checking/savings deposits, and time deposits. What distinguish one type from another are the conditions under which the deposited funds may be withdrawn.

A demand deposit is a deposit that can be withdrawn on demand at any time and in any amount up to the full amount of the deposit. The most common example of a demand deposit is a checking account. Money orders and traveller's checks are also technically demand deposits. Checking accounts are also considered transaction accounts in that payments can be made to third parties—that is, to someone other than the depositor or the bank itself—via check, telephone, or other authorized transfer instruction. Checking accounts are popular because as demand deposits they provide perfect liquidity (immediate access to cash) and as transaction accounts they can be transferred to a third party as payment for goods or services. As such, they function like money.

Savings accounts pay interest to the depositor, but have no specific maturity date on which the funds need to be withdrawn or reinvested. Any amount can be withdrawn from a savings account up to the amount deposited. Under normal circumstances, customers can withdraw their money from a savings account simply by presenting their "passbook" or by using their automated teller machine (ATM) card. Savings accounts are highly liquid. They are different from demand deposits, however, because depositors cannot write checks against regular savings accounts. Savings accounts cannot be used directly as money to purchase goods or services.

The hybrid savings and checking account allows customers to earn interest on the account and write checks against the account. These are called either negotiable order of withdrawal (NOW) accounts, or money market deposit accounts, which are savings accounts that allow a maximum of three third-party transfers each month.

Time deposits are deposits on which the depositor and the bank have agreed that the money will not be withdrawn without substantial penalty to the depositor before a specific date. These are frequently called certificates of deposits (CDs). Because of a substantial early withdrawal penalty, time deposits are not as liquid as demand or savings deposits nor can depositors write checks against them. Time deposits also typically require a minimum deposit amount.

b. Loans

Banks make three types of loans: commercial and industrial loans, consumer loans, and mortgage loans. Commercial and industrial loans are loans to businesses or industrial firms. These are primarily short-term working capital loans (loans to finance the purchase of material or labour) or transaction or longer-term loans (loans to purchase machines and equipment). Most commercial banks offer a variable rate on these loans, which means that the interest rate can change over the course of the loan. Whether a bank will make a loan or not depends on the credit and loan history of the borrower, the borrower's ability to make scheduled loan payments, the amount of capital the borrower has invested in the business, the condition of the economy, and the value of the collateral the borrower pledges to give the bank if the loan payments are not made.

Consumer loans are loans for consumers to purchase goods or services. There are two types of consumer loans: closed-end credit and open-end credit.

Closed-end credit loans are loans for a fixed amount of money, for a fixed period of time (usually not more than five years), and for a fixed purpose (for example, to buy a car). Most closed-end loans are called instalment loans because they must be repaid in equal monthly instalments. The item purchased by the consumer serves as collateral for the loan. For example, if the consumer fails to make payments on an automobile, the bank can recoup the cost of its loan by taking ownership of the car.

Open-end credit loans are loans for variable amounts of money up to a set limit. Unlike closed-end loans, open-end credit does not require a borrower to specify the purpose of the loan and the lender cannot foreclose on the loan. Credit cards are an example of open-end credit. Most open-end loans carry fixed interest rates–that is, the rate does not vary over the term of the loan. Open-end loans require no collateral, but interest rates or other penalties or fees may be charged—for example, if credit card charges are not paid in full, interest is charged, or if payment is late, a fee is charged to the borrower. Open-end credit interest rates usually exceed closed-end rates because open-end loans are not backed by collateral.

Mortgage loans or real estate loans are loans used to purchase land or buildings such as houses or factories. These are typically long-term loans and the interest rate charged can be either a variable or a fixed rate for the term of the loan.

c. Cash Management and Other Services

Although deposits and loans are the basic banking services provided by banks, these institutions provide a wide variety of other services to customers. For consumers, these include check cashing, foreign currency exchange, safety deposit boxes in which consumers can store valuables, electronic wire transfer through which consumers can transfer money and securities from one financial institution to another, and credit life insurance which automatically pays off loans in the event of the borrower’s death or disability.

In recent years, banks have made their services increasingly convenient through electronic banking. Electronic banking uses computers to carry out transfers of money. For example, automated teller machines (ATMs) enable bank customers to withdraw money from their checking or savings accounts by inserting an ATM card and a private electronic code into an ATM. The ATMs enable bank customers to access their money 24 hours a day and seven days a week wherever ATMs are located, including in foreign countries. Banks also offer debit cards that directly withdraw funds from a customer’s account for the amount of a purchase, much like writing a check. Banks also use electronic transfers to deposit payroll checks directly into a customer’s account and to automatically pay a customer’s bills when they are due. Many banks also use the Internet to enable customers to pay bills, move money between accounts, and perform other banking functions.

For businesses, commercial banks also provide specialized cash management and credit enhancement services. Cash management services are designed to allow businesses to make efficient use of their cash. For example, under normal circumstances a business would sell its product to a customer and send the customer a bill. The customer would then send a check to the business, and the business would then deposit the check in the bank. The time between the date the business receives the check and deposits the check in the bank could be several days or a week. To eliminate this delay and allow the business to earn interest on its money sooner, commercial banks offer services to businesses whereby customers send checks directly to the bank, not the business. This practice is referred to as “lock box” services because the payments are mailed to a secure post office box where they are picked up by bank couriers for immediate deposit.

Another important business service performed by banks is a credit enhancement. Commercial banks back up the performance of businesses by promising to pay the debts of the business if the business itself cannot pay. This service substitutes the credit of the bank for the credit of the business. This is valuable, for example, in international trade where the exporting firm is unfamiliar with the importing firm in another country and is, therefore, reluctant to ship goods without knowing for certain that the importer will pay for them. By substituting the credit of a foreign bank known to the exporter’s bank, the exporter knows payment will be made and will ship the goods. Credit enhancements are frequently called standby letters of credit or commercial letters of credit.

2.1.3 Central Bank

Governments create central banks to perform a variety of functions. The functions actually performed vary considerably from country to country. In broad sense, central banks serve as the government’s banker, as the banker to the banking system, and as the policymaker for monetary and financial matters.

As the government’s banker, the central bank can act as the repository for government receipts, as the collection agent for taxes, and as the auctioneer for government debt. It can also act as a lender to the government and as the government’s advisor on financial matters. As the banker for the country’s banks, the central bank can act as the repository for bank reserves, as the supervisor and regulator of banks, as the facilitator of inter-bank services such as check clearing and money transfers, and as a lender when banks need money to honour deposit withdrawals or other needs for liquidity.

As the country's monetary policymaker, the central bank controls the amount of credit and money available, the level of interest rates, and the exchange rate (the rate at which one nation's currency can be exchanged for another nation's). To achieve its monetary policy objectives, central bankers use a combination of policy tools. For example, the central bank may increase or decrease the amount of money (coin and currency) in circulation by buying or selling government debt instruments, such as bonds, on the open market. This policy tool is known as open market operations. Since interest rates are usually related to how much money and credit are available in the economy, the central bank can usually lower interest rates by buying bonds from the public with money. This increases the amount of money in the economy and lowers interest rates. To raise rates, the authority would sell bonds, thereby reducing the amount of money available to the public. The central bank could also cause a lowering or rising of interest rates by increasing or decreasing the amount of money banks must hold as a reserve against their deposits. By increasing reserves, the central bank forces banks to hold more money in their vaults, which means they can lend less money. Less money available for loans makes loans harder to get which, in turn, causes banks and other lenders to raise interest rates on loans (Encarta ® Reference Library 2011. © 1993-2010 Microsoft Corporation).

2.1.4 Joint Venture

" A joint venture is the joining forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial) investment, production or trade" (Grupt D.P., **The banking system, its role in export development,** Geneva, the financing exports from developing countries, International trade center, UNCTAD GATT – 1984:15-24)

"Jointly undertaken business enterprise is a business enterprise jointly undertaken by two or more companies, who share the initial investment, risks, and profits" (Microsoft **Encarta Reference Library** 2011.)

The main purpose of the joint venture s is to join economic forces in order to achieve desired end. In order to operate a business organization under joint venture basis, there should be at lease two partners from two different countries.

Joint venture banks are such types of institutions that deal with money and substitute of money. They collect fund from corner part of the country in the form of deposits for the purpose of advancing to others for expenditure.

Joint venture banks play important role to search new field of investment so that they can mobilize their funds as much as possible. The objective of establish joint venture banks is to help (economically) finance for country industries, trade etc. it always looks for profit.

The history of banking in Nepal has been started after the establishment of Nepal Bank Limited by special act on 1937 A.D. with 10 millions rupees of authorized capital and then opened its branches all over the country one after other. Nepal Rastra Bank (NRB) was established under the NRB act in 1956 A.D. as a central bank of Nepal, and then Rastriya Banijaya Bank (RBB) was established in 1966 A.D. After the restoration of democracy, Nepal has adopted more liberal and open economic policies. Reforms introduced in the financial sector in early 1980s have led to some significant improvements including interest rate liberalization, removal of entry restriction for establishing the commercial banks and insurance companies in the private sector. Until 1984, there were two governments owned commercial banks in operation, but after initiation of liberal economic policies, a provision was made for the establishment of commercial banks with foreign collaboration. As a result, Nepal Arab Bank Limited (NABIL) was established in 1984 as a first joint venture bank. In 1985 and 1986, two other joint venture banks namely, Nepal Indosuez Bank and Nepal Grindlays Bank Limited (Which is now known as Standard Chartered Bank Nepal Limited) started their operations. The open and liberal policy in the financial sector has helped in establishing many banks and financial institutions in the country. At present 32commercial banks, 69 financial institutions, 88 development banks, 16 rural micro finance development banks, and 26 saving & credit cooperative societies are licensed by Nepal Rastra Bank.

2.1.5 Investment

"An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for a future uncertain benefit" (Jack Clark Francis, **Investment Analysis and Management;** 5th edition. Singapore; McGraw-Hill Book Co - 1991:1)

James B. Bosley express his views as "Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets" (James B. Bosley, **Banking Management,** New Delhi; Subject Publication - 1987:124)

Cheney & Mases said "They investment objective is to increase systematically the individuals wealth, defined as asset minus liabilities. The higher the level of desired wealth the higher the must be received. As investor seeking higher return must be willing to take higher level of risk" (John M. Cheney and Edward A Moses, **Fundamentals of Investment;** St. Paul, USA, West publishing Company - 1992:13)

"Investment is use of money for future profit: the outlay of money, for example, by depositing it in a bank or by buying stock in a company, with the object of making a profit" (**Microsoft Encarta Reference Library** 2011)

"Investment by individuals, business and government involves a present sacrifice of income to get on expected future benefit. As a result investment raises a nation's standard of living" (**The world book encyclopaedia**, New York; World Book International - 1976:232)

From the above definitions, we can conclude that investment means use of money today by accepting more income in future. If some one invests his / her fund today, he / she will get financial benefit in future from mobilization of their fund. The value of rupee in future is increased than current value, so the expected change in price during the period and for the uncertainty involved in cash flow. So, it is clear that investment is the mobilization of funds today with expected additional return in future but the return sometimes may be negative also, if wrongly invested without sound knowledge of investment and their related factors.

2.1.6 Features of a Sound Lending and Investment Policy

Income and profit of the financial institutions like commercial banks and finance companies depend upon its lending policy, investment policy of collected fund in different securities. When they make greater credit, they will earn higher profitability. Some required features of lending investment policies are explained below:

a. Safety and security

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable.

b. Profitability

To maximize the return on investment and lending position, financial institutions must invest their collection in proper sector. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan, its time period and nature of investment on different securities and sectors.

c. Purpose of loan

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings in proper manner, they can never repay and the financial institutions will have heavy bad debts. So, they should collect and analyse the detailed information about the plan and scheme of the borrowing.

d. Legitimacy

Every financial institution must follow the rules and regulation of the company registration's office, government and various directions supplied by the central bank, ministry of finance, and other concern authorities while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be lost.

e. Liquidity

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence of the customers, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

f. Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

2.1.7 Review of Legislative Provision

In this section, the review of legislative framework (environment) under which the commercial banks are operating has been discussed this legislative environment has significant impact on the commercial banks establishment, their mobilization and utilization of resources all the commercial banks have to conform to the legislative provision specified in the commercial bank act 2031 and the rules and regulations formulated to facilitate the smooth running of commercial banks. The preamble of Nepal bank act 1994 clearly states the need of commercial banks in Nepal, in the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objectives of fulfilling that need by providing services to the people and for the betterment of the country is low hereby promulgated for the established of and its operation" (**Nepal bank act; 1964**). As mentioned in this act commercial bank will help in banking business by opening its braches in different parts of the country under the direction of NRB. The main function of commercial banks established under this act will be exchange of money, to accept deposit and give loan for commercial and business activities.

NRB rules regarding fund mobilization of commercial bank (NRB Act :12-15)

To mobilize banks deposit in different sector of different parts of the nation to prevent them from the financial problems, central bank (NRB) may establish a legal framework by formulating various rules and regulations (prudential norms). This directive must have direct and indirect impact while making decision to discuss those rules and regulation which are formulated by NRB in terms of investment and credit to private sector, deprived sector, other institution, single borrower limit, cash reserve ratio (CRR), loan loss provision, capital adequacy ratio, and interest spread productive sector investment. A commercial bank is directly related to the fact that how much funds should be collected to pay up capital. While being established at a certain place of the nation, how much fund is needed to expand the branches and counters, how flexible and helpful the NRB rules are. This above factor is very important to consider but here, only described related to investment function of commercial banks. The main provision, established by NRB in form of prudential norms in above relevant area is briefly discussed below:

1. Provision for the investment in productive sector

Nepal, being a developing county needs to develop infrastructure and other primary productive sectors like agriculture, industry, etc. For this, NRB has directed commercial banks to extend at least 40% of their total credit to the productive sector.

Loans to priority sector, agriculture sector, and industrial sector have to be included in productive sector investment.

2. Provision for credit to the priority Sector

NRB has directed commercial banks to at least 12% of their total outstanding credit to the priority sector. Commercial bank's credit to the deprived sector is also a part of priority sector. Under priority sector, credit to agriculture, credit to cottage & small industries and credit to service, loan to the cooperatives licensed by the NRB, are counted as priority sector.

3. Provision for investment in Deprive Sector

Some rules which are formulated by NRB affected areas of credit and investment extension to the deprive sector by commercial banks. According to the new provision which affected to commercial banks from 3rd quarter of FY 1995/96 investment in share of the rural development banks which used to be accounted for the priority sector lending, only is now to be included under deprived sector lending. According to the new provision effective from FY 1997/98, commercial banks are required to disburse credit to the deprived sector as the following stipulated ratio:

Table number 2.1

Provision for investment in deprived sector

Name of the banks	Required deprived sector lending as % of total outstanding credit
NIBL, NBL, RBB, NABIL, SCBNL, HBL	3%
BOKL, EBL, NBBL	2.5%
NCCBL	1.75%
LuBL, NICBL	0.75%
Other new banks	0.25%

4. Directive regarding interest rate spread

NRB has directed the commercial banks to limit its interest rates spread with the maximum of 8%. Interest rates spread is the difference between the interests charged on loan and advances and the interest paid to the depositors.

5. Directive to raise capital fund

The commercial banks under operation and having low capital base have been directed to raise their capital fund at a minimum level of NPR. 2008 million with 5 years of period. However, the commercial banks are allowed to include paid up capital and reserve for meeting the minimum capital requirement but they have to deduct the net loss if they are in loss.

Beside this, all commercial banks are directed to maintain the minimum capital fund on the basis of risk weighted assets

6. Cash reserve requirement (CRR)

To ensure adequate liquidity in the commercial banks to meet the depositor demand for cash at anytime smooth to inject the confidence in depositors regarding the safety of their deposited funds, commercial banks are required to deposit minimum 8% of current and saving 6% of fixed deposits in the NRB as primary cash reserve. The commercial banks are further required to have 3% cash of total deposits in their own bank as secondary reserve.

7. Provision for the single borrower credit limit

With the objective of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle six borrower to the bank loans. NRB directed commercial banks to set an upper limit on the amount of loan enhanced to an individual, firm, company, or group of companies. According to this commercial banks required not to exceeded the single borrower limit of 35% in the case of fund-based credit and 50% in case of non-fund based credit such as letter of credit, guarantee, acceptance letter, commitment has been fixed in a proportion of capital funds of bank. Similarly, NRB has graded six foreign joint venture banks now as the prestigious Class ‘A’ which are NABIL, SCBNL, NIBL, HBL, NSBIBL and NBBL. These banks have been kept outside the range of single borrower credit limit, likewise, in the case of consortium financing, commercial banks re permitted to extend and additional 10% credit above the limit fixed by the NRB as before. In addition, Nepal Oil Corporation, Agriculture Equipment inputs Corporation, and Nepal Food Corporation for their imports of petrol, diesel, kerosene, fertilizers and food stuffs respectively have been removed from the restrictions of single borrower credit limit.

8. Loan classification and loss provision

NRB has directed commercial bank to classify their outstanding loan and advances, investment and other assets into four categories:

a. Pass b. Substandard c. Doubtful d. Loss

Table number 2.3

Loan loss provisioning (LLP) in percentage

Loan Classification	Loan Loss Provisioning
Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

2.1.8 Fund mobilising procedure of JVBs

Every banks of world has applied their own fund mobilising procedure. These procedures are normally so visible in the bank. The bank has adopted the procedure of fund mobilization, which is easy and effective in practical. Generally all banks have some fund mobilizing procedure of the funds mobilization have presented below serially.

A. Sources of fund

Bank collects the fund from different sources in the economy activities. In; these sources, issuing share and borrowing loan from different sector. The sources of funds can be classified in two ways. Owned funds / equity capital and borrowed capital.

1. Owned funds (equity capital of bank)

Following sources are the owned fund sources (equity capital of bank)

(i) Ordinary share

Ordinary shares are the bank's a strong and reliable source of funds. Banks promoters issue ordinary shares to the public in fixed number. Bank collects the funds by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholder after purchasing the issued share. So, bank receives a large amount of fund from promoters and ordinary shareholders.

(ii) Preference share

Preference share means a type of share which receives dividend and priority to get money after liquidation of the company. But, in Nepal, bank cannot issue preference share. But in some situation, bank can issue preference share by taking advance permission from NRB. If NRB provides the permission, bank can collect the fund by issuing preference shares.

(iii) Bonus share

Bonus share means company issues the extra share to the share holder from the profit and reserve fund by capitalising these funds.

(iv) Retained earning

Bank earns profit by investing the funds in different sector through the principle of profit earning. Bank invests its fund in productive and profitable areas. Bank earns some amount from these investments.

(v) Reserve fund

Bank separates some fund in reserve funds during the time of preparing balance sheet. The reserve funds size based on bank's earning and rules and regulation. Bank must separate some portion of profit in reserve fund. Bank has been earning by investing the reserve funds in liquid sector. So, the reserve fund is also kinds of sources of funds.

(vi) Undistributed dividend

Bank does not distribute all of its profit to the shareholders. Bank invests some amount from its profit b not distributing to shareholders. By this, the invested profit makes sources of funds to the bank.

2. Borrowed fund

Bank collects the funds from other sources except owned funds. Other sources are borrowing from different sector. These types of funds collect borrow and debt capital. Following title can illustrate in this funds.

(i) Selling of debenture

Debenture means a "Rinpatra" which is issued by company by keeping or not keeping assets securities for collection of fund. If bank need fund, it can collect capital by issuing debenture.

(ii) Deposits

Bank performs two-fold functions i.e. the receipt of the deposits and granting the loans. The bank borrows money by accepting different types of deposits. The bank attracts the deposits from the public. The bank not only undertakes to take care of the deposits but also agrees to honours the demands of depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different types – current, saving and fixed deposits.

(iii) Loan from the central bank

NRB is the central bank in Nepal. It is bank of banks. All banks should operate their banking activities under the central bank. So, central bank provides loan to the banks if needed. The loan provided by central bank is also bank borrowing capital.

(iv) Loan from financial institutions

Bank can receive loans from financial institutions. This is also known as borrowing capital.

(v) Loan from commercial banks

Bank receives money from other bank in the form of borrowing when needed. Bank solves the money problem of other banks by providing loan. This is also known as borrowing capital.

B. Mobilisation of fund

Bank utilizes its funds in suitable areas. Bank cannot achieve its aim of profit earning without mobilizing its funds in right sectors and different activities. Bank should separate the useful and profitable sector for mobilization of its funds. Mainly a bank has mobilized its funds in following activities.

(i) Liquid fund

A bank has kept a volume of amount in liquid funds. The funds have so man responsibilities in banking activities. Liquid funds have covered Cash in hand, Balance with central bank, Balance with other domestic bank, Call money, etc.

(ii) Investment

A bank invests its fund in different banking activities and different fields. Many types of fields are shown in market for investment but bank invests its funds in profitable and safety activities. Bank invests its funds in government securities, share and debenture, central bank's bond, joint-venture, etc.

(iii) Loan and advances

A bank mobilizes its funds by providing different types of loan and advances to customers by charging fixed interest. Different types of loan and advances are to government enterprises, and to private enterprises.

(iv) Fixed assets

Land and buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicles, computer, and other concerned instrument which are related to banking activities. Bank cannot take direct gain from these assets but bank should by it. A bank has a need of fund to purpose fixed assets for the new branches of the bank.

(v) Administrative and miscellaneous expenses

Bank should manage funds for its administrative and other miscellaneous expenses. In administrative expenses, it includes salary of employees, allowances, pension, provident fund, advertisement, stationery, rent, income tax, donation, insurance, travel, commission etc and in miscellaneous expenses, it includes distributing the dividend to shareholders, to bear the loss on sale and purchase of banking assets, maintenance expenses, to pay the interest on borrowed amount, reserve fund etc.

In this way, bank mobilizes its fund in different activities to achieve its goal or earning profit. In really, bank's main aim is to earn more and more profit by mobilizing its funds with fully consuming in all banking activities.

2.1.9 Meaning of some important terminology

Assets

It is somebody or something that is useful and contributes to the success of something. Assets are the valuable and important properties of the firm and represent economic recourses. All the assets should be measured in monetary term which helps to earn future benefits to an organization such as: building, debtors, marketable securities, goodwill, patents etc. in the firm; there may be tangible & intangible assets as well as fixed assets and current assets to run the activities properly and for the smooth operation.

Advances

Lend money or goods or to supply money or goods on credit. Amount of money which are paid or lent before date expiration is called advance. It is the sum of amount which was prepaid and treated as assets, will be returned in future and expired the date in future.

Performing Assets

Performing loans are those loans that repay principle and interest in timely manner to the bank from the cash flow it generates. In the context of Nepal, the loans classified as "Pass" category is termed as performing loan.

Non-Performing Assets

These are the loans that do not repay principle and interest in timely manner to the bank. NPA has mainly meanings, which varies from country to country. In some countries, NPA means, the loan is impaired. In some countries, it means that the payments are past due, but there are significant differences among countries how many days a payment should be in arrears before past due status is triggered. Nevertheless, a rather common feature of NPA appears to be that a payment if more than 90 days past due. In Nepal also, if the loan is past due for over 3 months, it is NPA. Hence, the loans falling under substandard, Doubtful and loss categories are regarded as NPA.

Bond

Bond is a certificate issued by the government or a company promising to pay back borrowed money at a fixed rate of interest on a specified date. A bond is a source of long term financing or long term promissory note issued by an organization under which borrower agrees to pay interest as well as principle on specific date to the lender. There are two types of bond: (I) Mortgage bond, and (II) Debenture bond.

Deposits

Deposit is an act of placing money or a valuable item in a bank or other institution. Money that is given as security against possible damage or loss. Financial institutions collect deposits from the customers in various accounts like: current account, saving account, and fixed deposit account. Therefore, the sums of money collected by the financial institutions from the depositors in various accounts are called deposits. Deposit is the main source of fund of the financial institutions.

Liquidity position

Liquidity means assets that can easily be converted into cash. Liquid assets determine the liquidity position of the organization and higher the liquid assets, better the liquidity position.

Share

It is a part of company’s stock: any of the equal, usually small, parts into which a company’s capital stock is divided. The part of capital owned by a shareholder is called share these shares are transferable in nature. Thus, any person can be the member of the company by purchasing the certificates of investment on company and could with draw his / her membership by transferring his / her shares. In joint stock Company, total amount of capital is divided into number of shares through which company can collect the capital.

Interest

In the financial term, interest is borrowing charge or payment for money use: a charge made for a loan or credit facility, or a payment made by a bank or other financial institution for the use of money deposited in an account. Interest is an opportunity cost on sacrificing the saving from own state for certain period.

Securities

Securities are financial instrument: a tradable document such as a stock certificate or bond that shows evidence of debt or ownership. Securities are the main sources of long term financing which involve shares, and debentures issued by the company or government and redeemed in future with interest.

Income Statement

It is a statement which summarizes and provides the information about revenues and expenditure of the organization during the accounting period. It contains real income and expenditures during the fiscal year. Income statement contains all the items of revenue, gains, losses and operating expenses incurred in carrying on the business and selling and distribution the goods for the particular accounting period which gives the amount of net profit.

Retained Earning

It is the certain portion of the firm’s earnings which is kept for the future use or contingencies. It is an internal source of financing.

Off –Balance Sheet transaction

Off –Balance Sheet transactions are the future agreements concerning with bills purchase, letter of credit and guarantee which are treated as liabilities. It includes fee based activities.

Balance Sheet

It is a statement showing the assets and liabilities of a company or institution at a particular time. It is a financial statement which is generally prepared at the end of each accounting year which contains assets and liabilities. It shows the actual financial position of the organization, the efficiency of all assets and liabilities separately. Broadly speaking, it shows three things, via (I) the nature and value of assets, (II) the nature and value of liabilities, and (III) the position of capital.

Liability

In accounting terms, liability is money owned from all debts and other financial obligations that appear on a balance sheet. Liabilities are the amount debt payable in future by the firm to its creditors. Liabilities represent the obligations to make payments through cash or bank or provide goods and services in future; i.e. creditors, bills payable, loan outstanding expenses etc.

Variance

In statistical terms, variance is the square of standard deviation: a statistical measure of the spread or variation of a group of numbers in a sample, equal to the square of the standard deviation. Other measures of the spread are the ratio of the squared standard deviation to the sample size population variance, and the ratio of the squared standard deviation to the sample size minus one sample variance. In accounting terms, variance is difference in cost. A difference between actual costs and the usual costs of production. Generally it is denoted by “σ2”. It is one of the statistical tools, which is used to analyze data for this study also.

Standard Deviation

Standard deviation is statistical measure of dispersion. It is a statistical measure of the amount by which a set of values differs from the arithmetical mean, equal to the square root of the mean of the differences’ squares. It can be denoted by “σ”.

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{X^2}{N} \mathrm{Z} \frac{(\quad X)^2}{N}}$$

Coefficient of variation

Co-efficient of variation (C.V.) is the proportion of standard deviation with mean and multiplied by 100. It can be defined by:

$$\text{C.V.} = \frac{\bar{X}}{\pm} * 100\%$$

2.2 Review of books

According to Chenny and Moses, "The investment objective is to increase the individual's wealth, defined as asset minus liabilities. The higher the level of the desired wealth the higher must be received. An investor seeking higher return must be willing to face higher level of risk (John M. Cheney and Edward A. Moses, **Fundamentals of Investment;** St. Paul, USA, West publishing Company - 1992:23)

Finance company utilises its funds in suitable areas. Finance company cannot get its aim of profit earning without mobilizing its funds in right sectors and different activities. Many types of activities and other thing can origin for the purpose of receiving invest from the finance company. But finance company should separate the useful and profitable sector for mobilization of its funds.

The banks are such types of institution which deal in money and substitute for money. They deal with credit and credit instrument. Good circulation of credit is very much important for the banks. Unsteady and unevenly flow of credit harms the economy. Thus, to collect fund and mobilize it in a good investment is not a joke for such organization. An investment of fund may be the question of life and death of the bank.

In the words of Sharpe and Alexander "Investment, it is broadest sense, means the sacrifice of certain present value for future value" (William F Sharpe & Alexander J Gorden, **Investment;** New Delhi, Prentice Hall of India (p.) Ltd. P- 39)

Preeti Singh has defined investment in the way "Investment is the employment of funds with the aim of achieving additional income of growth in value" (Preeti Singh, **Investment Management;** Bombay, Himalayan Publishing House P-87)

Frank K. Reilly has defined investment in this way "An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the fund are committed, for the expected rate of inflation and also for the uncertainly involved in the future flow of the funds" (Reilly K Frank, **Investment;** Japan, The Dryden Press, Cbs publishing Japan Ltd. P-3)

Charles P. Jones has defined that "Investments as the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth which is the sum of current income and present value of all future income" (Jones P Charles **Investment Analysis and Management;** Bombay, Himalayan Publishing House P-97)

Sunity Shrestha in her book "Portfolio behaviour of commercial banks in Nepal" said that the commercial banks fulfil the credit needs of various sector of the economy including agriculture, industry, commercial, social sector of the economy, services sector etc. the lending policy of commercial bank is based on the profit maximising of institution as well as the economic enhancement of the country. (Dr. Sunity Shrestha, **Investment Planning of Commercial Banks in Nepal;** Kathmandu.)

2.3 Review of previous studies, research papers and published articles

Many researchers has analysed their fund mobilizing view and findings in their research papers in this subject through investment policy of commercial banks.

"Twenty-five percent decreased in the liquidity position of commercial banks." The liquidity position of commercial bank has decreased by about twenty-five percent. According to the governor of NRB Dr. Tilak Bahadur Rawal, last year the liquidity of the commercial bank was NPR. 48,000 million but now it is only NPR. 38,000 million. In this condition, capital drain seems responsible and political condition also responsible. The president of Nepal Bankers Association has expressed that the liquidity position of commercial banks has decreased by twenty-five percent in comparison to the last year. Mr. Bhattarai requested to NRB to implement flexible monetary policy in the current situation of controlling inflation and decreasing liquidity. Dr. Rawal said that NRB has implemented flexible monitory policy and although continuing the policy, because of the BPO is negative, it should be careful and should implement the monetary policy by balancing. But economist Dr. Badri Prasad Pokhrel has suggested that if demand is high, it should increase the liquidity. (An article published in Kantipur National Daily, 11 Jestha 2059 Saturday) Kathmandu, Kantipur Publication (p.) Ltd.)

Sajana Rana has conducted thesis research on "an investment policy of joint venture banks in Nepal", and she has aimed the following objectives:

- To identify the investment strategy of the JVBs.
- To identify the investment priority of JVBs on share & debenture.
- To forecast the investment trend.

The major findings were as follows:

The mean ratio of investment of government securities to current assets of NB has been found lower than that of the other banks. Whereas, SCBNL has highest mean ratio in comparison with other banks. Likewise, NBBL's ratios are less homogenous. The mean ratio of total investment to total deposit ratio of Nepal SBI Bank Limited has lowest than other. On the other hand, SCBNL has the highest mean ratio. Moreover, Everest bank's ratios are more consistent. Investment on government securities to total financial investment ratio of NB has lowest mean ratio and SBI has the highest mean ratio. SBI's ratios are homogenous and NBBL has less homogenous. The mean ratio of investment on shares / debentures to total investment ratio of SCBNL has quite lowest ratio and NB has the highest. NBBL has less homogenous ratio and NABIL Bank Limited has more homogenous ratio. The trend value of all JVBs has an increasing trend. It means if other things are remaining the same, JVBs will increase their investment in future.

Mr. Lila Prasad Ojha has carried out research on "Lending Practices: A study on Nabil Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited". The main objectives of his study are to analyze, the various aspects of bank's lending in various sector of economy, the individual bank's performance regarding the lending quantity, quality, efficiency and its contribution in total income. The problems, conclusion and recommendation figured out by him in that thesis are discussed as below.

As stated by him, over liquidity caused due to lack of good lending opportunities, risks arising due to mismanagement of lending portfolio, increasing non-performing assets etc are some of the problems that are facing by Nepalese banking sector. His main objective was to analyze the various aspects of bank's lending in various sector of economy, the individual bank's performance regarding the lending quantity and quality. He concluded "The highest growth rate, proportionately high volume of loans and advance, the best contribution in priority and agricultural sector and the high level of deposits mobilization of HBL has put this bank in the top position in the lending function. However, the better activity ratio of Standard Chartered Bank Nepal Limited has proved the best bank in managing the lending portfolio according to the demand of profit oriented business. The high volume of lending activities and high volume of productive sector loan of NABIL has put the bank in the top position in absolute terms. The increasing provision on loan loss and high volume of non-performing assets in NABIL & HBL certainly attracts the high attention of any person interested with these banks. The high volume of NPL of HBL may have caused due to the failure of industrial and agricultural sector. NABIL's increased NPA may have caused due to the accumulated bad debts that is kept behind the blind to show the high efficiency of management" (Ojha Lila Prasad, A Study on NABL, SCBNL, and HBL, an unpublished Masters Degree Thesis, TU 2010).

He suggested that following the normal guidelines of NRB and action upon this also reduce many of the credit risk arising from borrowers. He recommended banks to be more careful and realistic while granting loans and advances. As per his suggestion, the major solution of reducing the risk is to avoid lending in more risky area until the bank does not fully satisfy itself regarding the future viability of the project. He further suggested that the establishment of Asset Management Co. (AMC) which helps commercial banks in collecting their debts and improving their credit rating efficiency should be initiated. As per his opinion, lack of proper credit appraisal, default by blacklisted borrower and professional defaulter, the over confidence in commercial banks regarding credit appraisal efficiency and negligence in taking information from credit information bureau has caused many of he bad debts in these banks.

Sushil Chandra Mahat has conducted thesis research on "an investment policy of Nepal Bangladesh Bank Ltd." He has set out the following objectives in his study:

- To find out the non-performing assets (NPA) position of the bank.
- To evaluate the portfolio management of the bank.
- To find out the bank's investment in priority sector.
- To analyze deposit utilization and its relationship with total investment and net profit of the bank.
- To suggest measures to improve the investment policy of the bank.

The major findings were as bellows:

Current ratio analysis of the bank over the five years period indicates that the bank has been able to meet its short-term obligation and has satisfactory liquidity position. It is found that NIBL is in better position in mentioning its cash and bank balance to meet its daily requirements to make the payments on customers deposit withdraws. The analysis indicates that the bank has not mobilized significant amount of fund on the govt. securities and share & debenture of other companies. But further investment on shares & debentures of other companies, the security market of the country is not so developed. The analysis shows that about 2/3 of the assets of the bank comprises loan & advance that is risky asset. Loan & advances is the most risky and most productive assets of the bank. The trend analysis of NIBL shows that the total deposit, total loan & advances, total investment and total net profit of the bank is in increasing trend.

Jyoti Joshi has conducted thesis research on "an investment policy of commercial banks in Nepal." The specific objectives of the research were as follows:

- To discuss the fund mobilization and investment policy of JVBs.
- To evaluate the liquidity, efficiently, profitability and risk position.
- To evaluate the growth ratio of loan & advances, total investment with other financial variables.
- To analysis the trends of deposit utilization towards total investment and loan & advances.
- To conduct hypothetical test to find whether there is significant difference between the various important ratios of JVBs.

The major findings were as follows:

It shows that the liquidity position of Everest Bank Limited (EBL) is comparatively better than NABIL and Bank of Kathmandu (BoK). It has the highest cash and bank balance to total deposit, cash and bank balance to current asset ratio. EBL is average profitable in comparison to other compared bank that is NABIL and BoK. The bank must maintain its high profit margin for the well being in future. EBL has moderate risk in between NABIL and BoK regarding various aspects of banking function. EBL has maintained high growth ratios on total deposits loan & advances a net profit but it has moderate positioning investment. It shows that the bank is successful in increasing its sources of funds and its mobilization. There is significant relationship between deposit and loan & advances and outside assets and net profit of EBL. The trend analysis of deposit, loan & advances, total investment and net profit of JVBs is in increasing trend.

Ms. Shama Bhattarai in her study “Implementation of Directives Issued by Nepal Rastra Bank: A comparative study of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited” has made an attempt to analyze various aspects of NRB Directives with respect to capital adequacy and loan classification and provisioning. As per her view, the process of continual review and classification of loans and advances enables banks to monitor the quality of their loan portfolios and to take corrective action to counter decline in the credit quality of their portfolios.

She concluded that with the new provision the banks will have its provision amount increasing in coming years and subsequently profitability of the banks will also come down. However, the true picture of the quality of the assets will be pain3ed in the coming years to come. She recommended “the banks should be very careful while analyzing the paying capacity of its credit clients. With longer period of past due, the bank will end up increasing its provisions which will keep the bottom line low if the bank is not careful (Bhattarai, Shama, Implementation of Directives issued by Nepal Rastra Bank: A comparative study of Nepal SBI bank limited and Nepal Bangladesh bank limited, an unpublished Masters Degree Thesis, TU 2012).

Mr. Raja Ram Khadka in his thesis on “A study on the Investment Policy of Nepal Arab Bank Limited in comparison to other joint venture banks of Nepal” has concluded that NABIL is comparatively less successful in on balance sheet utilization as well as of balance sheet operations than that of other JVBs. Mr. Khadka warned that in coming years NABIL may be behind in the competitive market if it cannot mobilize its resources as efficiently as other JVBs. He recommended “The bank must utilize depositors’ money as loans and advances to get success in competitive banking environment. The largest item of the bank in the assets side is loan and advances. Negligence in administrating this assets could be the main cause of a liquidity crisis in the bank and one of the main reason of a bank failure” (Khadka Raja Ram, A study on Investment Policy of Nepal Arab Bank Limited in comparison to other joint ventures banks of Nepal, an unpublished Masters Degree Thesis, TU 1998).

Ms. Anju Khadka has carried out research on “A Comparative Study on Investment Policy of Commercial Banks” with an objective to find out the relationship between deposits, investment, loans and advances and net profit. She has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NIBL.

She concludes “NBL is comparatively less successful in on balance sheet as well as off-balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would gap behind in the competitive market of banking. A profitability position of NBL is comparatively worse than that of other CBs. It predicts that NBL may not maintain the confidence of shareholders, depositors and it’s all customers if it cannot increase its volume even in future (Khadka Anju, A Comparative Study on Investment Policy of Commercial Banks, an unpublished Masters Degree Thesis, TU 2010).

Ms. Anjana Shilpakar, in her thesis “A Study on Lending Practices of Finance Companies of Nepal” aimed to analyze performance of finance company regarding lending quantity and quality and its contribution in profitability. She concluded that Loans and Advances is one of he main sources of income of finance companies. This study is also shown by the high degree positive correlation between total income and Loan and Advances. “Loan loss provision is like a by-product of Loans and Advances. Thus, with loan and advance, loan loss provision does increase in synchronize.

She recommended that loans and advances of finance companies are increasing and so are the Non-performing loans and loan loss provision. Hence extra efforts should be enforced to control over NPL (**Shilpakar Anjana,** A study on Lending Practices of Finance Companies of Nepal, an unpublished Masters Degree Thesis, TU 2011).

2.4 Research Gap

Standard Chartered Bank Nepal Limited (SCBNL) is one of the leading joint venture commercial banks of the country having huge market share and its investment activities has significant impact on the national economy. Previous researchers have not conducted about the investment policy of SCBNL &NIBL. Some comparative studies have been previously done but in-depth study about these banks is not found. Therefore, this study has been done to analyse the investment policy of SCBNL& NIBL .by taking the data of five years. The study is completely based on secondary data. The current data has been used in this research will try to show the present investment of above mentioned banks. Hope that the study fulfils the prevailing research gap about in-depth analysis of the investment policy of SCBNL&NIBL which are major concern of public shareholders and other stakeholders.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a systematic way of solving the research problem. It refers to the methods that are used for conduction of research or performing research operation. It can be defined as "A systematic process that is adopted by the researcher in studying a problem with certain objective in view". In other words, research methods are those methods which are used by the researcher during the course of studying his / her research problem.

"Research methodology is a way to solve the research problem systematically. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It also highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc." **(Joshi; 2010:19)**

"Research methodology refers to the various sequential steps adopted by a research in studying a problem with certain objectives in view" (C.R. Kothari, **Research Methodology & Method and Technique,** willey Eastery Ltd., New Delhi 1989). In other words, research methodology describes the methods and process applied in the entire aspect of the study.

This chapter attempts to have an insight into the investment policy adopted by SCBNL. This will help to evaluate and analyze investment performance the bank in comparison to the other bank NIBL .

This study basically helps to conclude the real position of SCBNL with cpmpare to NIBL, the leading banks of Nepal and recommend the useful and meaningful points so that all concerned can achieve something from this study. To accomplish this goal, the study follows the research methodology described in this chapter.

3.2 Research Design

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research question and to control variance. The plan is the overall scheme or program if research." (Joshi; 2010:22)

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure” (C.R. Kothari, **Quantitative techniques,** Vikash Publishing house (P.) Ltd., New Delhi 1992). Research design is the plan, structure and strategy of investigation conceived. So, as to obtain answers to research questions, to control variances, to achieve the objective of the study, descriptive and analytical research design has been used.

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of data. Research design is the definite procedure and techniques which guides the study and the ways to do the study. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion.

The basic elements of research design are:

1. The problem
2. The methodology.
3. Data gathering.
4. Data analysis, and
5. Report writing. (**Wolfe and Pant**; 2010:75)

To achieve the objective of this study, descriptive and analytical research design has been used. This study is based on past data of concern banks. The research methodology is based on the secondary type of data. Some financial and statistical tools have been applied to examine facts. Descriptive techniques have been adopted to evaluate the investment policy of SCBNL and NIBL.

3.3 Sources of data

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, assets, and profit are directly obtained from the balance sheet and profit and loss Account of concerned bank’s annual reports. Supplementary data and information are collected from number of institution and regulating authorities like NRB, SDC library, Central Library, TU, Security Exchange board, Nepal Stock Exchange, Ministry of Finance, Budget speech of different fiscal year, Economic Survey and National Planning Commission etc.

According to the need and objectives, all the secondary data are complied, processed and tabulated in time series. In order to judges the reliability of data provided by the bank and other sources, they were complied with the annual reports of auditors.

Answers received from questionnaires were also helpful to obtain the additional information of the elated problem.
Similarly, various data and information are collected from the periodicals, economic journals, managerial magazines and other published and unpublished reports and documents from various sources.

3.4 Population and sample

The population refers to the industries of the same nature and its services and product in general. Thus, the total commercial banks constitute the population of the data and the banks under study constitute the sample for the study.

It is not possible to study all the data related with all commercial banks of Nepal. There are thirty two commercial banks all over the nation and their stocks are treated actively in stock market. Therefore, Standard Chartered Bank's investment policies have been compared with that other leading commercial banks only, which are selected from population. The population is as follows which are major of thirty-two banks.

Table number 3.1

List of licensed major commercial banks

Commercial banks	Establish Date (B.E.)	Operation Date (B.E.)	Head Office
1. Nepal Bank Limited	1994/07/30	1994/07/30	Kathmandu
2. Rastriya Banijaya Bank	2022/10/10	2022/10/10	Kathmandu
3. Nabil Bank Limited	2041/03/29	2041/03/29	Kathmandu
4. Nepal Investment Bank Limited	2042/11/16	2042/11/16	Kathmandu
5. Standard Chartered Bank Nepal Limited	2043/10/16	2043/10/16	Kathmandu
6. Himalayan Bank Limited	2049/10/05	2049/10/05	Kathmandu
7. Nepal Bangladesh Bank Limited	2050/02/23	2050/02/23	Kathmandu
8. Nepal SBI Bank Limited	2050/03/23	2050/03/23	Kathmandu
9. Everest Bank Limited	2051/07/01	2051/07/01	Kathmandu
10. Bank of Kathmandu Limited	2051/11/28	2051/11/28	Kathmandu
11. Nepal Credit and Commerce Bank Limited	2053/06/28	2053/06/28	Siddharthanagar
12. Lumbini Bank Limited	2055/04/01	2055/04/01	Narayangadh
13. Nepal Industrial & Commercial Bank Limited	2055/04/05	2055/04/05	Biratnagar
14. Machhapuchhre Bank Limited	2057/06/17	2057/06/17	Pokhara
15. Kumari Bank Limited	2056/08/24	2057/12/21	Kathmandu
16. Laxmi Bank Limited	2058/06/11	2058/12/21	Birgunj
17. Siddhartha Bank Limited	2058/06/12	2058/09/09	Kathmandu

(NRB **Banking and Financial Statistics;** No. 44. Kathmandu)

3.5 Method of Analysis

To achieve the objectives of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data will be done accoutring to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, Karl Pearson's coefficient of correlation, and the method of least square are adopted in this study. Similarly, some strong accounting tools such as ratio analysis and trend analysis has also been use for financial analysis.

The various calculated results obtained through financial, accounting and statistical tools tabulated under different heading. Then they are compared with each other to interpret the results

3.5.1 Financial tools

Ratio analysis

An arithmetical relationship between tow figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number expressed in terms of another. Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performances of an organization by creating the ratios from the figure of different accounts consisting in Balance Sheet and Income Statement is known as Ratio analysis. Ratio analysis is also very helpful for decision making. From the information provided by ratio analysis with the help of financial statement are very useful for making decision on any financial activity. Due to inter-firm comparison, ratio analysis also serves as a vital measure. It helps management in developing future market strategies.

A. Liquidity Ratios

Liquidity ratios are used to judge the ability of banks to meet its short term liabilities that are likely to mature in the short period. From them, such insights can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is the measurement of speed with a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are evaluated under liquidity ratios:

(i) Current ratio

This ratio shows the banks short-term solvency. It shows the relationship between current assets and current liabilities. Current assets includes cash and bank balance, money at call on short notice, loan & advances, investment on government securities and other interest receivables, overdrafts, bills purchased and discounted and miscellaneous current assets. Similarly, current liabilities include deposits and other short-term loan, bills payable, tax provision, staff bonus, dividend payable and other miscellaneous current liabilities. Current ratio is calculated as

$$\text{Current Ratio} = \frac{TotalCurrentAssets}{TotalCurrentLiabilities}$$

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances on case seasonal business and the nature of business.

(ii) Cash and bank balance to total deposit ratio

This ratio shows the capability of bank, which may be immediately payable to the depositors. Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as:

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

Hence, cash and bank balance includes cash in hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call or short notice and other deposits.

(iii) Cash and bank balance to current assets ratio

This ratio measures the proportion of most liquid assets i.e. cash and balance among the total current assets of bank. Higher ratio shows the banks ability to meet demand for cash. This ratio is computed by dividing cash and bank balance by current assets. This can be stated as:

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{Cash \,\&\, BankBalance}{CurrentAssets}$$

(iv) Investment on government securities to current assets ratio

This ratio is calculated to find out the percentage of current assets invested in government securities i.e. treasury bills and development bonds. This ratio is computed by dividing investment on government securities by current assets. We can state it as:

Investment on Government Securities to Current Assets Ratio

$$= \frac{Invt.onGovt.Securities}{CurrentAssets}$$

B. Assets Management Ratios

Assets management ratio measures how efficiently the bank manages the resources at its command. The following ratios are used under this assets management ratio.

(i) Loan and advances to current assets ratio

Loan and advances are the current assets which generates income for the bank. Loan and advances to current assets ratio shows the percentage of loan and advances in the total current assets. This can be computed by dividing loan advances in the total current assets. This can be stated as:

$$\text{Loan and Advances to Current Assets ratio} = \frac{Loan\,\&\,Advances}{CurrentAssets}$$

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

(ii) Loan & advances to total deposit ratio

This ratio is calculated to find out how successfully the banks are utilizing their total deposits on loan & advances for profit generating purpose. Greater ratio implies the better utilization of total deposits. This can be obtained by dividing loan and advances by total deposits, which can be stated as:

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

(iii) Total investment to total deposit ratio

Investment is one of the major credits created to earn income. This implies utilization of bank's deposit on investment in government securities, shares and debentures of other companies and bank. This ratio can be obtained by dividing total investment by total deposit. This can be mentioned as:

$$\text{Total Investment to Total Deposit Ratio} = \frac{TotalInvestment}{TotalDeposit}$$

The numerator consists of investment on government securities, investment on debenture and bonds, shares in other companies and other investment.

(iv) Loan & advances to total working fund ratio

Loan and advances is the major component in the total working fund (total assets) which indicates the ability of bank to channels its deposits in the form of loan and advances to earn high return. This ratio is computed by dividing loan and advances by total working fund. This is stated as:

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

(v) Investment on government securities to total working fund ratio

This ratio shows that bank's investment on government securities in comparison to the total working fund. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as:

$$\text{Investment on Govt. Securities to Total Working Fund Ratio} = \frac{Invt.onGovt.Securities}{TotalWorkingFund}$$

(vi) Investment on shares and debenture to total working fund ratio

This ratio shows the banks investment in shares and debenture of subsidiary and other companies. This ratio can be derived by dividing investment on shares and debentures by total working fund which can be mentioned as:

$$\text{Investment on Share and Debenture to Working Fund Ratio} = \frac{Invt.onShare \,\&\, Debenture}{TotalWorkingFund}$$

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

(vii) Loan loss ratio

This ratio shows the possibility of loan default of a bank. It indicates how efficiently it manages its loan and advances and makes effort for loan recovery. Higher the ratio implies higher portion of non-performing loan portfolio. Dividing loan loss provision from total loan and advances derives this ratio. This can be stated as:

$$\text{Loan Loss Ratio} = \frac{TotalLossProvision}{TotalLoan \,\&\, Advances}$$

Here, the numerator indicates the amount of provisions for possible loss.

C. Profitability Ratios

Profitability ratios are calculated to measure the efficiency of operation of a firm in term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of bank and vice versa. Profitability position can be evaluated through following different ways.

(i) Return on loan and advances ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. This ratio is computed by dividing net profit (loss) by loan and advances. This can be expressed as:

$$\text{Return on Loan \& Advances Ratio} = \frac{Net\,\mathrm{Pr}\,ofit}{Loan\,\&\,Advance}$$

(ii) Return on total working fund ratio

This ratio is measures the overall profitability of all working funds i.e. total assets is also known as return assets. A firm has to earn satisfactory return on assets working fund for its survival. This ratio is calculated by dividing net profit (loss) by total working fund. This can be mentioned as:

$$\text{Return on Total Working Fund Ratio} = \frac{NetProfit(Loss)}{TotalWorkingFund}$$

The numerator indicates the portion of income left to the internal equities after and costs charges, expenses have been deducted

(iii) Return on equity ratio

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the banks have used the funds of owners. This ratio is calculated by dividing net profit by total equity capital (net worth). This can be stated as:

$$\text{Return on Equity Ratio} = \frac{NetProfit}{TotalEquityCapital}$$

Here, total equity capital include3s shareholder's reserve including profit and loss account, share capital i.e. ordinary share and preference share capital.

(iv) Total interest earned to total working fund ratio

This ratio is calculated to find out the percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank. Its terms of interest earning on total working fund. This ratio is calculated by dividing total interest earn by total working fund. This is stated as:

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

(v) Interest earned to total operating income ratio

This ratio is calculated to find out the proportion of interest income in total operation income of the bank. It indicates how efficient is the bank in mobilization of its resources in interest bearing assets i.e. loan and advances, investment etc. This ratio is calculated by dividing total interest earned by total operating income. This ratio can be stated as:

$$\text{Total Interest Earned to Total Operating Income Ratio} = \frac{TotalInterstEarned}{TotalOperatingIncome}$$

D. Risk Ratio

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

(i) Liquidity risk ratio

The liquidity risk ratio measures the level of risk associated with the liquid asset i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the depositors demand for cash. Higher the ratio, lower the liquid risks. Dividing cash and bank balance calculate this ratio by total deposits. This is mentioned as:

$$\text{Liquidity Risk Ratio} = \frac{TotalCash \,\&\, BankBalance}{TotalDeposit}$$

(ii) Credit risk ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. Here, dividing total loan and advances by total assets derives this ratio. This can be stated as:

$$\text{Credit Risk Ratio} = \frac{TotalLoan \,\&\, Advances}{TotalAssets}$$

3.5.2 Statistical tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as standard deviation, coefficient of variance, least square linear trend and hypothesis testing have been used. The basic analyses are written in point below:

(a) Trend analysis of important variables.

(b) Hypothesis test (t-statistic)

A. Trend analysis

This topic analyzes the trend of deposits, loan & advances, investments and net profit of SCBNL and NIBL from 2008 to 2012 and makes the forecast for the next five years till 2017. Under this topic, following subtopics have been presented.

(i) Trend analysis of total deposits.

(ii) Trend analysis of total investment.

(iii) Trend analysis of net profit.

B. Test of hypothesis

"To test the validity of our assumption, if sample size is less than 30, t – test is used" (C.R. Kothari, **Quantitative techniques,** Vikash Publishing house (P.) Ltd., Bombay 1992). Applying t – test in the context of small sample, the '+' value is calculated first and compared with the table value of '+' at a certain level of significance for value of 't' exceeds the table value (say 0.05). We inter that the difference is significant at 5% level. But, if 't' is less than the concerning table value of the't' the difference is not treated as significant.

The objective of this test is to test the significance regarding the parameters of the population on the basis of sample drawn from the population. This test has been conducted on the various ratios related to the banking business as follows:

(i) Hypothesis test on Loan & Advances to Total Deposit Ratios between SCBNL & NIBL.

(ii) Hypothesis test on Total Investment to Total Deposit Ratios between SCBNL & NIBL..

(iii) Hypothesis test on Investment on Government Securities to Current Asset Ratios between SCBNL & NIBL.

(iv) Hypothesis test on Loan & Advances to Current Assets Ratios between SCBNL & NIBL.

(v) Hypothesis test of Return on Loan & Advances Ratios between SCBNL & NIBL.

Standard Deviation

The measurement of the scatter of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as home gently of a series; a large standard deviation means just the opposites. In this study, standard deviation of different ratio is calculated.

Co-efficient of Variance (C.V.)

"The co-efficient of variance is the relative measure of dispersion, comparable across distribution which is defined as the ratio of the standard deviation to the means expressed in percent" (Levin I Richard and Rubin S. David, **Statistics for Management,** Prentice Hall of India (P.) Ltd., New Delhi 1991). It is calculated as:

$$\text{C.V.} = \frac{S.D.}{Mean} * 100\%$$

$$\text{Where, Standard Deviation (S.D.)} = \sqrt{\frac{X^2}{N} \mathrm{Z} \frac{(\quad X)^2}{N}}$$

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

The purpose of this chapter is to study, evaluate and analyze those major financial performances which are mainly related to investment management and fund mobilization of Standard Chartered Bank Nepal Limited in comparison to that of Nepal Investment Bank Limited. The study cannot fulfilment without the analytical scheme that follows to the result oriented under the chapter. Good analysis occurs by interpretation primary and secondary data that should be fitted and related field study of the framework.

4.1 Analysis of Secondary Data

The data available will be firstly summarized. Under these headings, calculated financial ratios are analyzed and evaluated after their interpretations are made.

4.1.1 Analysis of Financial Ratios

In this chapter, to evaluate and analyze the performance of SCBNL in comparison to NIBL.Study of all types of ratios are not done; only those ratios that are important from the point of view of the fund mobilization and investment are calculated. The important ratios that are studied for this purpose are given below.

4.1.1.1 Liquidity Ratio

Liquidity ratio measures the firm's ability to meet its maturing short term obligation. The following ratios are evaluated and interpreted under this ratio.

(i) Current Ratio

This ratio shows the banks short-term solvency. It shows the relationship between current assets and current liabilities. Current assets includes cash and bank balance, money at call on short notice, loan & advances, investment on government securities and other interest receivables, overdrafts, bills purchased and discounted and miscellaneous current assets. Similarly, current liabilities include deposits and other short-term loan, bills payable, tax provision, staff bonus, dividend payable and other miscellaneous current liabilities.

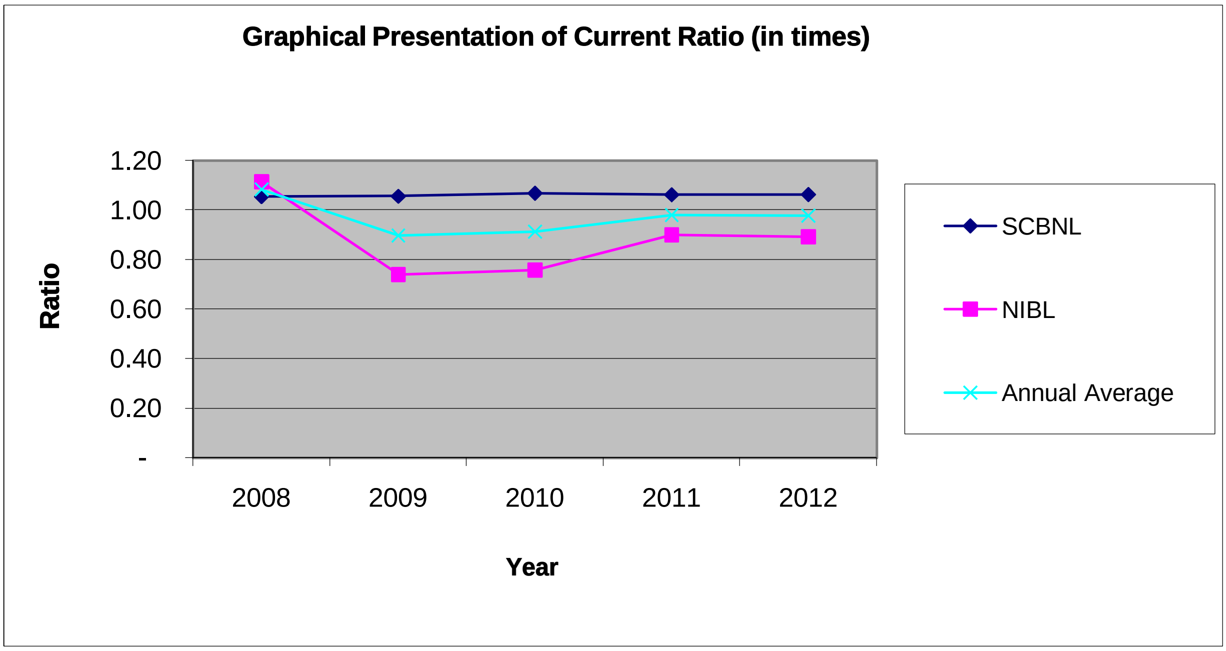
The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances on case seasonal business and the nature of business.

Current ratios of SCBNL and NIBL from the fiscal year 2008 to 2012 are given below in table number 4.1 (details in Appendix A). Mean, Standard deviation and coefficient of variation are also as follows:

Table number 4.1

Current Ratio (in times)

Bank	Fiscal Year					Mean Ratio	S.D.	C.V. (%)
	2008	2009	2010	2011	2012			
SCBNL	1.06	1.06	1.07	1.06	1.06	1.06	0.004	0.38
NIBL	1.11	0.74	0.76	0.90	0.89	0.88	0.04	4.77
Average	**1.085**	**0.90**	**0.915**	**0.953**	**0.975**			



The table number 4.1, it shows that all current assets of SCBNL are more than Current Liabilities and constant ratio in last two-study period. NIBL has increasing and decreasing trend. It has more Current Liabilities than Current Assets except in 1st year of study period. NIBL has not sound ability to pay short term obligations due to more liabilities. Ratios of NIBL are fluctuating trend under the stud period. Current Ratios of NIBL for 2 to 5 years show more Current Liabilities than Current Assets.

In average, liquidity position of SCBNL is greater than NIBL i.e. 1.06>0.88 and due to high mean ratio. So, SCBNL is sound liquidity position than other banks. Likewise, the Coefficient of Variation (C.V.) of SCBNL is less than other banks i.e. 0.38 %< 4.77%. It can be said that Current Ratio of SCBNL is more consistent than that of NIBL.

From the point of view of working capital policy NIBL has followed the aggressive working capital policy by attracting more Current Liabilities i.e. current and saving deposits and deploying them into liquid sector.

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

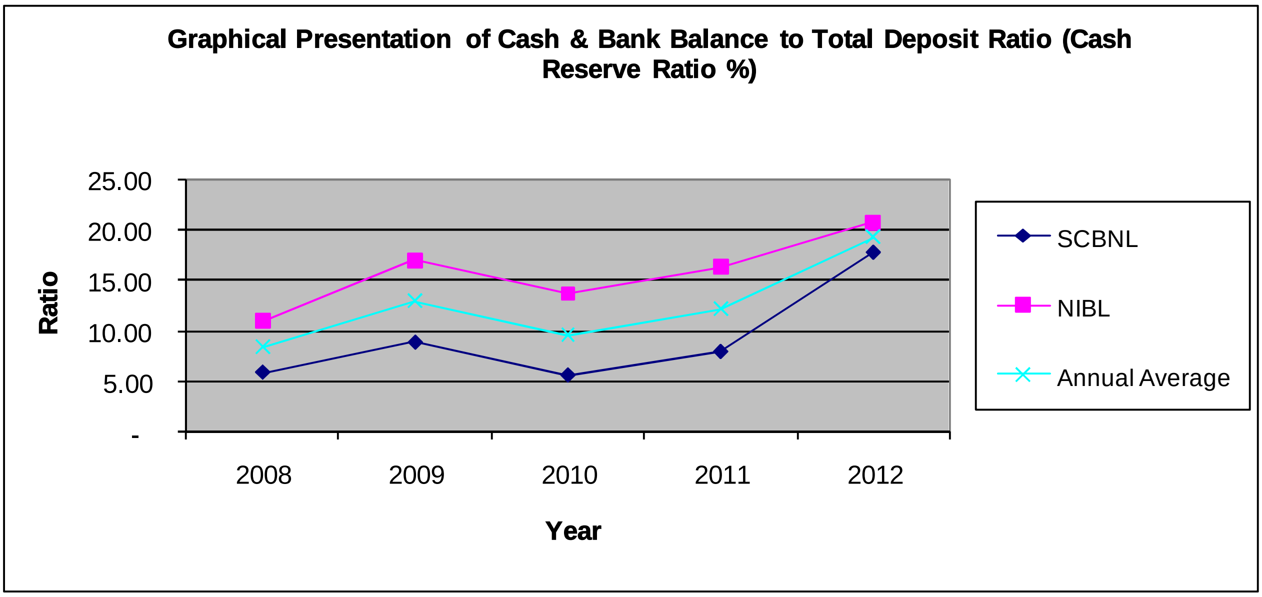
For commercial banks, cash and bank balance is said to be the first defence of every cash transaction. The ratio between cash and bank balance and total deposit measure the ability of the bank to meet the unanticipated cash and all types of deposits. Higher the ratio, the ability will be greater to meet sudden demand of deposit. But every high ratio is not desirable since bank has to pay interest on deposits. This will also maximized the cost of the fund to the bank.

Cash and bank balance to total deposit ratio of SCBNL& NIBL from the fiscal year 2008 to 2012 are given below in the Table number 4.2 (details in Appendix B).

Table number 4. 2

Cash and Bank Balance to Total Deposit Ratio (%)

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	5.77	8.85	5.48	7.83	17.71	9.11	4.47	49.11
NIBL	10.88	16.94	13.58	16.23	20.70	15.666	3.30	21.08
Average	**8.27**	**12.71**	**9.67**	**12.21**	**19.32**			



The table number 4.2, it shows that the mean ratio, standard deviation and coefficient of variation of cash and bank balance to total deposit ratios of all bank are better. All the banks have maintained fluctuating trend under the study period.

In average, SCBNL has maintained lower cash and bank balance to total deposit ratio than NIBL. It states that the cash and bank balance in liquidity position of SCBNL is lower than other bank. The C.V. 49.11 SCBNL of which is comparatively higher than other banks.
In average, SCBNL has maintained low ratios. It shows that some difficulties to meet the demand of its customers on their deposit to pay any time but it may be earn more due to invested cash to different sectors.

Through high ratio indicates its high ability to pay for depositors and to invest the different sectors but also very high ratio shows the inefficiency. All deposit amounts mostly to invest other sectors due to investing opportunity occurs and gain more. Likewise, short term marketable securities, treasury bills etc. ensuring enough liquidity which will help the bank to improve its profitability.

(iii) Cash and Bank Balance to Current Assets Ratio

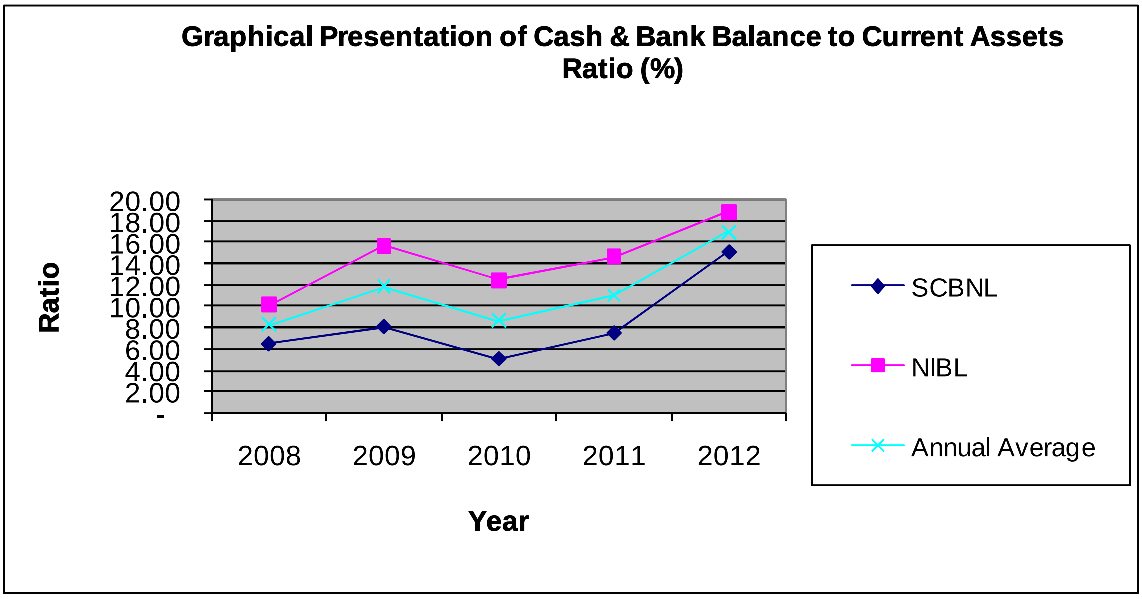
This ratio shows the bank liquidity capacity on the basis of cash and bank balance that is the most liquid asset. Higher ratio indicates the bank ability to meet the daily cash requirement of their customer deposit and vice-versa. But higher ratio is not preferred as the bank has to pay more inertest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

Cash and bank balance to current assets ratio of SCBNL and NIBL from the fiscal year 2008 to 2012 are given in the Table number 4.3 below (detail in Appendix C).

Table number 4. 3

Cash and Bank Balance to Current Assets Ratio (%)

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	6.41	8.05	5.0	7.44	15.14	8.408	3.521	41.87
NIBL	10.15	15.71	12.49	14.68	18.89	14.384	2.955	20.544
Average	**8.28**	**11.98**	**8.72**	**11.14**	**17.01**			



The table number 4.3, it shows that SCBNL has decreasing and increasing trend and other bank ratios are also maintained fluctuating types trend. SCBNL has maintained its ratios less than other banks. NIBL has maximum ratio is 15.71% in F.Y. 2009 and minimum of F.Y. 2008 is 10.15%.

In average, the mean ratio of SCBNL is less than that of other banks. As a result, we can say that in spite of its fluctuation trend in ratios, it maintained low cash and bank balance to current assets ratio than other bank. The liquidity position of SCBNL is lower than that of other banks. The coefficient of variation between the above ratios of SCBNL 41.87 which is comparatively higher than the NIBL and lower than the i.e. 41.87%>20.544% .

Thus, it can be concluded that SCBNL is low capable for maintained cash and bank balance in comparison to other banks but it does not mean that it has mobilized its less fund in profitable sectors. The SCBNL is maintained to invest funds in different sectors and may be generate for more income than other banks. NIBL is maintained the high cash and bank balance to meet the payable to customers. Above analysis depicts that liquidity position of SCBNL is over than NIBL. So, it is less consistent than NIBL. It shows to mobilize some improving the quick payment of its deposit.

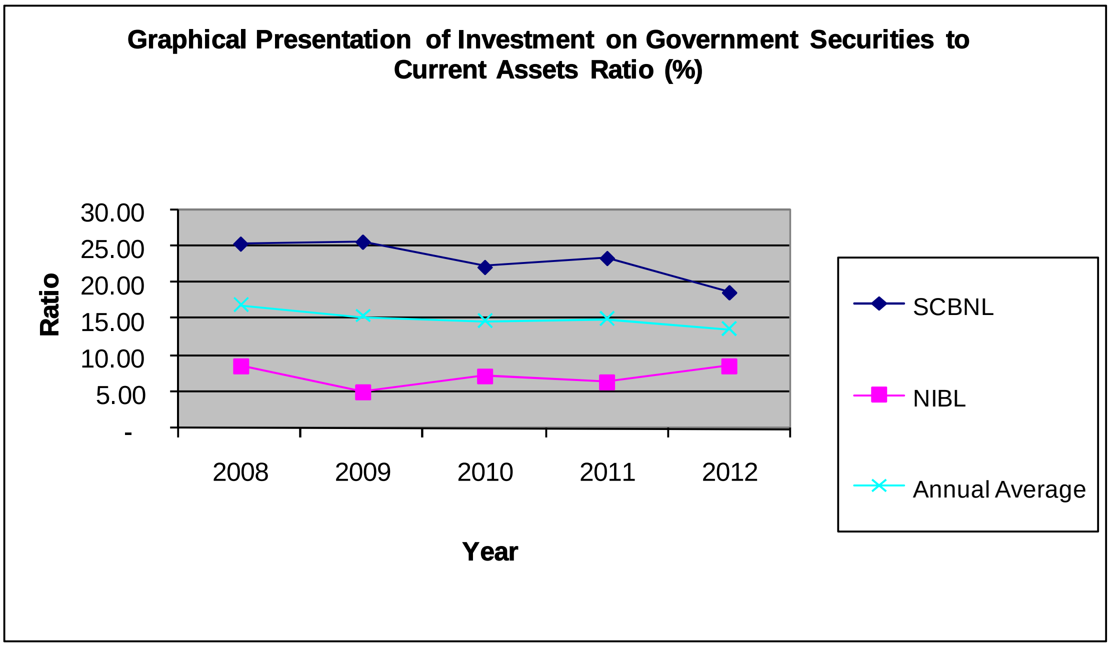
(iv) Investment on Government Securities to Current Assets Ratio

The commercial banks are interested to invest their collected funds in various government securities issued by government. The government securities are the safest place to make investment. But the government securities are not so much liquid as cash and bank balance. They can be easily sold in the market or they can be concerted into cash in other ways. The main purpose of this ratio is to examine that portion of a commercial bank's current asset that is invested on different government securities (detail in Appendix D).

Table number 4.4

Investment on Government Securities to Current Assets Ratio (%)

Bank	Fiscal Year					Mean Ratio	S.D.	C.V. (%)
	2008	2009	2010	2011	2012			
SCBNL	25.43	25.71	22.21	23.44	18.69	23.10	2.55	11.055
NIBL	8.54	5.03	7.19	6.46	8.46	7.14	1.32	18.399
Average	**16.93**	**15.37**	**14.70**	**14.95**	**8.89**			



The table number 4.4, it shows the ratios of all fluctuation trend and NIBL of F.Y. 2008 has been maintained the government securities investment opportunity. Comparatively, SCBNL is maintained the high ratio within 5 year period by investing on government securities for generated more income. NIBL found to opportunity investment on government securities F.Y. 2009 to 2011 decreasing trend. SCBNL found all F.Y. ratios are higher than other bank and 2008 more government securities for investment by current assets and F.Y. 2012 less opportunity.

Comparatively, shows the mean ratio of investment on government securities to current assets ratio of SCBNL is higher than the other bank i.e. 25.71%>8.54% It means SCBNL has invested much portion of its current assets as other banks. On the other hand, C.V. in ratio of SCBNL is less than NIBL i.e. 11.55 %< 18.399% which means that the variability of ratios of SCBNL is more consistent and homogenous than that of NIBL.

In conclusion, the SCBNL has invested its more portions of current assets as government securities than that of NIBL. Further, it is concluded that SCBNL's liquidity position from investment on government securities point of view is greater position than other bank.

4.1.1.2 Assets Management Ratio

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets properly to earn high profit. Under this chapter, following ratios are studied.

(i) Loan and Advances to Current Assets Ratio (%)

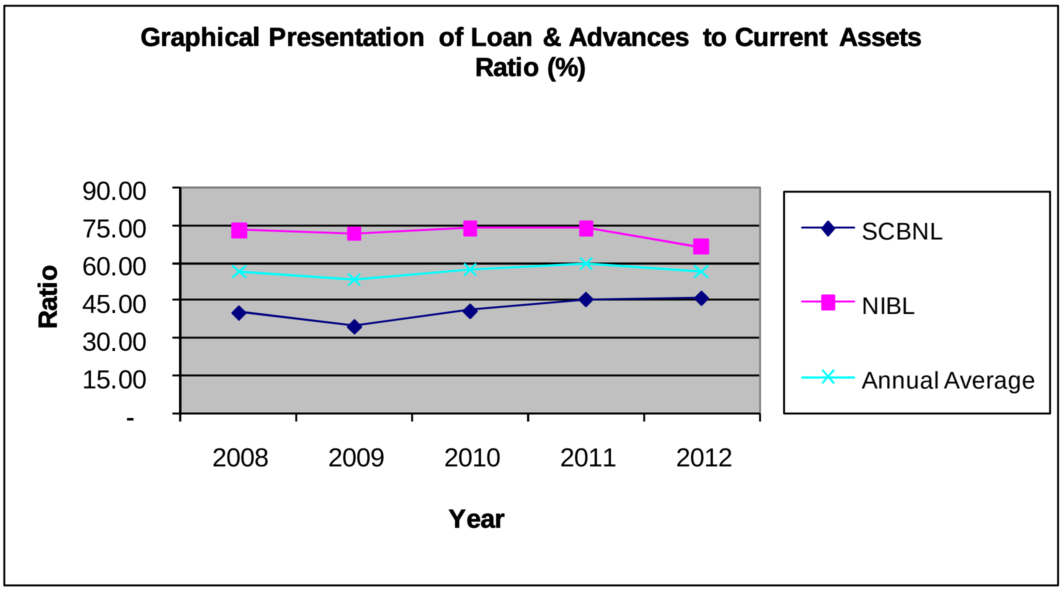
Loan and advances are also included in the current assets of commercial banks because generally, it provides short term loan, advances, overdrafts, cash-credit, local and foreign bill purchased and discounted.

To make a high profit through mobilizing its fund in the best way, a commercial bank should not keep its all collected fund as cash and bank balance but they should be invested as loan and advances to the customers. If sufficient loan and advances can not be granted, it should be pay interest on those utilized deposit funds and may be lose some earning. But, high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan and advances in appropriate level to find out portion of current assets which is granted as loan and advances. The Table number 4.5 shows the ratio of loan and advance to current assets ratio of SCBNL and NIBL (detail in Appendix E).

Table number 4.5

Loan and Advances to Current Assets Ratio (%)

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	40.61	35.11	41.33	46.06	46.54	41.93	4.17	9.43
NIBL	73.10	71.96	74.06	74.13	66.65	73.43	8.424	11.46
Average	**56.95**	**53.57**	**57.44**	**60.08**	**56.98**			



The table number 4.5, the comparative table listed above shows that SCBNL and NIBL have maintained fluctuated trend on their loan and advances to current assets ratios. In case of SCBNL, it has recorded highest ratio in F.Y. 2012 i.e. 46.54% and lowest in F.Y. 2009 i.e. 35.11%. Similarly, NIBL maintained highest ratio in F.Y. 2011 i.e. 74.13% and lowest in F.Y. 2012 i.e. 66.65%.

While examining the mean ratio, SCBNL has maintained 35.11 which is less than NIBL i.e. 66.65 , Coefficient of variation among ratio is less than NIBL i.e. 9.943 %< 11.46%. It indicates that more uniform of SCBNL in comparison to NIBL.
Lastly, we can say that SCBNL is poor to mobilize its funds as loan and advances with respect to current assets in comparison to NIBL. The mean reveals that SCBNL 's loan and advances to current assets is satisfactory level but overall liquidity position of SCBNL is not satisfactory than that of NIBL.

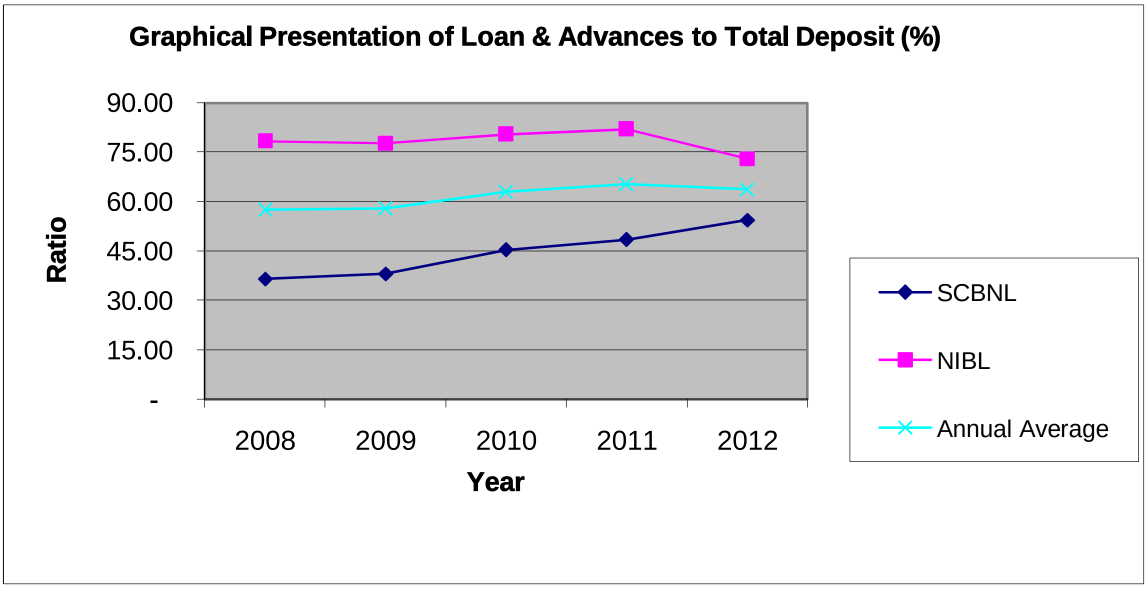
(ii) Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on Loan and advances. The Table number 4.6 shows the ratio of loan and advance to total deposit ratio of SCBNL and NIBL (detail in Appendix F).

Table number 4.6

Loan and Advances to Total Deposit Ratio (%)

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	36.59	38.14	45.29	48.49	54.44	44.61	6.60	14.81
NIBL	78.36	77.61	80.49	81.96	73.03	74.80	5.68	7.69
Average	**57.49**	**57.94**	**62.41**	**65.26**	**64.91**			



The table number 4.6 shows that the ratio of SCBNL has decreasing trend where NIBL have fluctuating trend. SCBNL has highest ratio 54.44 in the F.Y. 2012 and lowest ratio is 36.59% in the F.Y. 2008, NIBL has highest ratio 80.49% in the F.Y. 2010 and lowest 64.53% in the F.Y. 2012.

In average, SCBNL has maintained lower loan and advances to total deposit ratio than that of NIBL. The C.V. of SCBNL is 14.81 which are greater than that of NIBL i.e. 14.81>7.59 .

From the above description, it can be concluded that SCBNL is lower position to mobilize its total deposits as loan and advances in comparison to other banks. But, higher ratio is not better from the point of view of liquidity as the loan and advances is not liquid as cash and bank balance. Loan management of bank assets can be provided so many factors are to be considered such as risk analysis, diversification, social responsibility, bank's credit policy, compensation policy, limit of lending power etc. but those negative aspect slightly forget that high ratio may be generated the high income.

(iii) Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposits by investing its funds in different securities issued by government and other financial and or non-financial institutions. This ratio measures the extent to which the banks are able to mobilize their deposits on investment in various securities. A high ratio indicates the success in mobilizing deposits in securities and vice-versa. The table number 4.7 exhibits these ratios of the SCBNL and NIBL and (detail in Appendix G).

Table number 4.7

Total Investment to Total Deposit Ratio (%)

Bank	Fiscal Year					Mean Ratio	S.D.	C.V. (%)
	2008	2009	2010	2011	2012			
SCBNL	55.27	56.41	56.13	45.42	35.98	49.84	8.047	16.14
NIBL	19.94	15.84	17.24	15.10	18.31	17.29	1.733	10.02
Average	**37.83**	**37.21**	**37.18**	**30.26**	**27.14**			

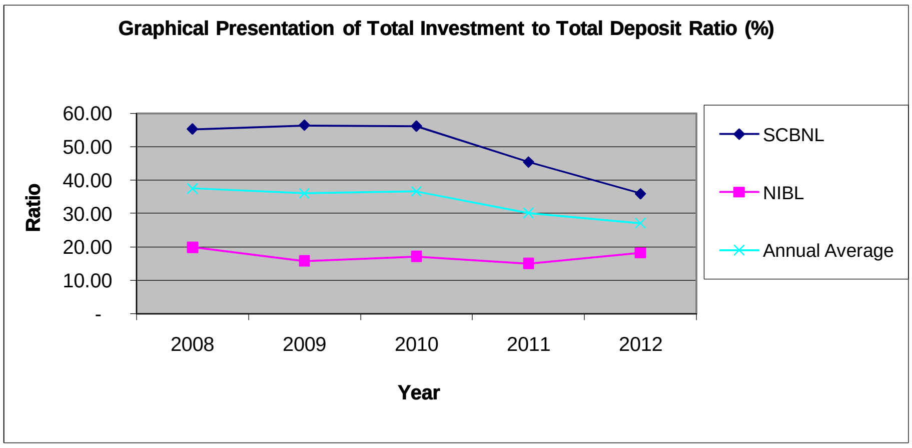


Table number 4.7 shows SCBNL has fluctuating trend regarding the ratios but F.Y. 20010 to 2012 decreasing trend. During the study period, SCBNL has highest ratio 56.41% in the F.Y. 2009 and lowest ratio 35.98% in the F.Y. 2012. NIBL has highest and lowest ratio 19.95% and 15.84% in the F.Y. 2008 and 2009 respectively.

The mean ratio of SCBNL is greater than NIBL i.e. 49.84%>17.29% as so, S.D. is greater than that of NBBL i.e. 8.08>1.73. So, SCBNL is in good position on investment under total deposit than other banks. On the other hand, C.V. is also less than that of other bank i.e. 16.14 %< 10.24% So, SCBNL in comparison to NIBL has maintained the clear view point the study period seen more consistent.

The analysis shows that the average investment policy of SCBNL is better than NIBL .but it is more homogeneous on investment in total deposit ratio between the SCBNL and NIBL.

(iv) Loan & Advances to Total Working Fund Ratio

Loan & advances is an important part of total assets (Total Working Fund). Commercial bank must be very careful in mobilizing assets. As loan & advances in appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets on loan & advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan & advances and vice-versa. The table number 4.8 shows the Loan & Advances to Total Working Fund Ratio of SCBNL and NIBL (detail in Appendix H).

Table number 4.8

Loan & Advances to Total Working Fund Ratio (%)

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	40.31	35.11	41.33	46.03	46.55	41.93	4.17	9.93
NIBL	73.10	71.96	74.06	74.13	66.65	71.98	2.77	3.86
Average		**38.57**	**40.32**	**45.56**	**40.45**			

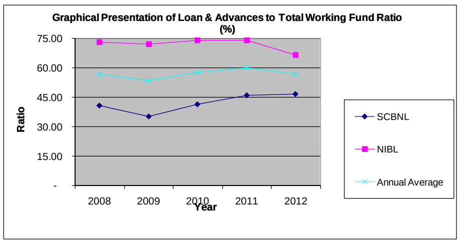


Table number 4.8 shows the ratio of SCBNL and NIBL in fluctuating trend. SCBNL has highest and lowest ratio 46.55% and 35.11% in F.Y. 2011 and 2009 respectively. NIBL has highest and lowest ratio 74.13% and 66.65% in F.Y. 2011 and 2012 respectively.

On the basis of mean ratios, SCBNL is less than that of NIBL i.e.41.98 %< 71.98% . From this, it can say that SCBNL is in weak condition to mobilize its total working fund as loan and advances. Moreover, C.V. of SCBNL is consistent than other bank i.e. 3.86 %< 10.0%

From the above analysis, it can be concluded that SCBNL's fund mobilization in terms of loan and advances with respect of total working fund is not more satisfactory than that of NIBL.

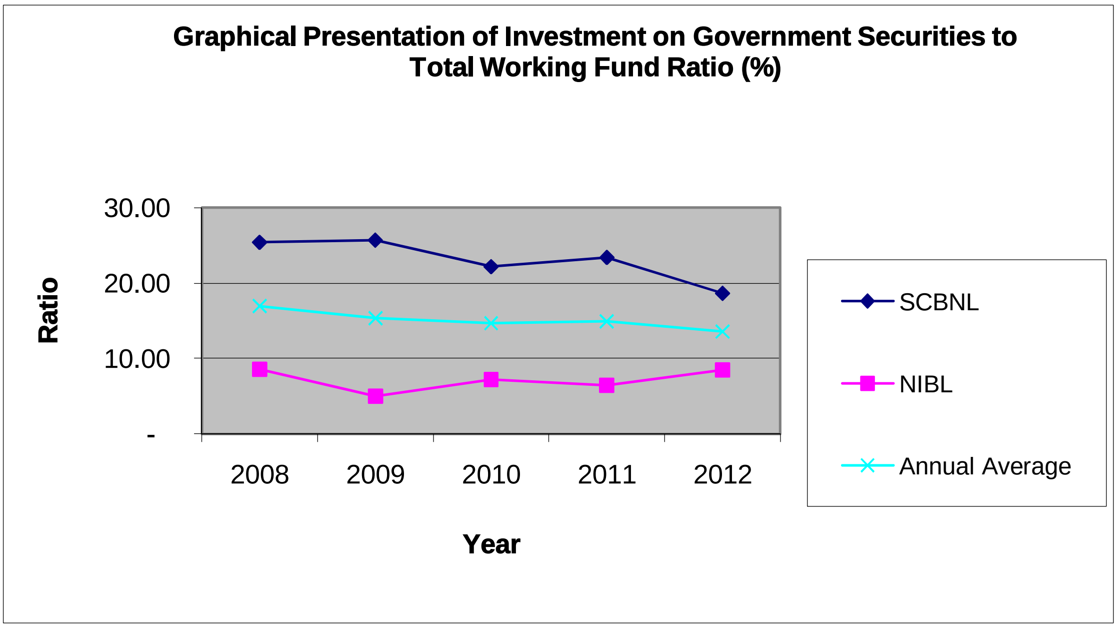
(v) Investment on Government Securities to Total Working Fund Ratio

All the resource of a bank is never used as loan and advances. A bank mobilizes its fund in various ways. To some extent, commercial bank seems to utilize its fund by purchasing government securities. A government security is a safe medium of investment although it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as invest on government securities and low ratio also indicates the minimum income generate. So, the government security is a current asset which is invested by external parties. These types of securities can be sold in the market. Investment on government securities to total working fund ratio of SCBNL and NIBL from the F.Y. 2008 to 2012 are given below in the table number 4.9 (detail in Appendix I)

Table number 4.9

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

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	25.43	25.71	22.21	23.44	18.69	23.096	2.80	12.36
NIBL	8.54	5.03	7.19	6.46	8.46	7.136	1.3129	18.399
Average	**16.99**	**15.37**	**14.7**	**29.90**	**13.57**			



From the table number 4.9, it is clearly seen that investment on government securities to total working fund ratio of SCBNL& NIBL have fluctuating trend but NIBL ratio is has no occurs due to no investing or no available opportunity of government securities and SCBNL has increasing trend for the study periodFY2009,2010,2011.

In average, SCBNL has maintained higher mean ratio value than that of others i.e.25.43 % >8.54% . So, the above analysis, it can be concluded that the SCBNL has invested more portion of working fund on government securities as other banks and banks have no certain investment policy towards government securities and also, SCBNL is more consistent and homogeneous than NIBL due to having less C.V. than that of NIBL i.e. % 12.36<18.399%

(vi) Investment on Share and Debentures to Total Working Fund Ratio

Mainly, total investment has been broken down into tow parts i.e. investment on government securities and investment on shares and debentures. Now a day, a commercial bank is interested to invest its fund not only on government securities but also in share and debentures of other different types of companies.

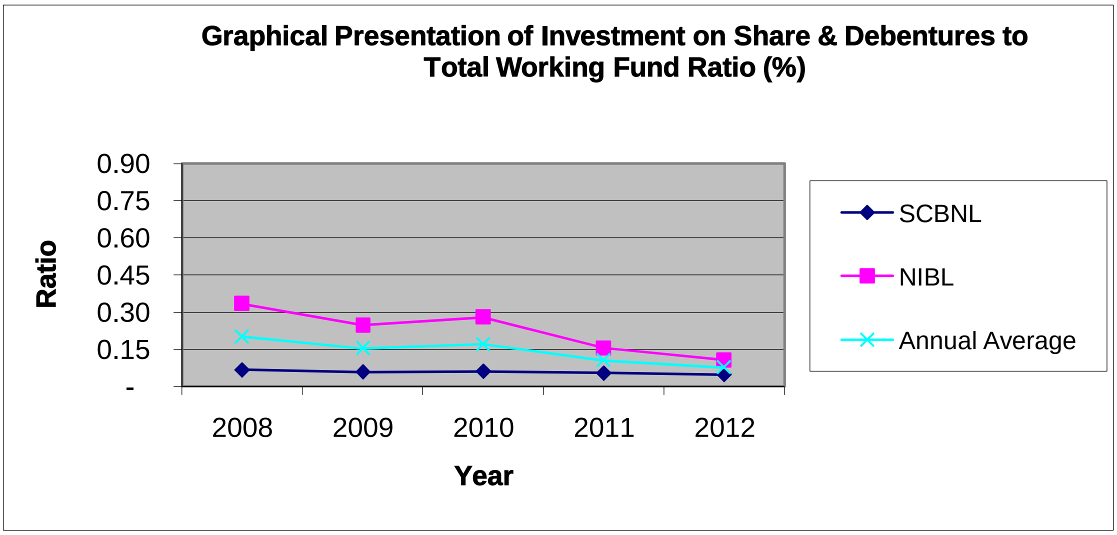
Investment on shares and debentures o total working fund ratio reflects the extent on which the banks are successful to mobilize their total assets on purchase of shares and debentures of other companies to generate income and utilize their excess fund. A high ratio indicates more position of investment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

Investment on share and debenture to total working fund ratio of SCBNL&NIBL from the F.Y. 2008 to 2012 are given below in the table number 4.10 (detail in Appendix J)

Table number 4.10

Investment on Share and Debentures to Total Working Fund Ratio (%)

Bank	Fiscal Year					Mean Ratio	S.D.	C.V. (%)
	2008	2009	2010	2011	2012			
SCBNL	0.07	0.06	0.06	0.05	0.05	0.06	0.01	10.35
NIBL	0.33	0.25	0.28	0.15	0.10	0.22	0.09	40.91
Average	**0.21**	**0.15**	**0.17**	**0.10**	**0.07**			



The table number 4.10 shows that of all banks ratios has fluctuated trend. On the basis of mean ratios, SCBNL has less investment than that of other banks i.e. 0.06 %< 0.22. Moreover, C.V. of SCBNL has less than other banks i.e. 10.35 %< 40.91%. It means investment ratios of SCBNL are more consistent than other banks in significantly. So, SCBNL has less percentage of investment on shares and debentures as total working fund than other banks. It means the SCBNL has very less stable for investment on share and debenture, more variable and more consistent than that of other banks from the point of view of investment expenses toward the different sectors.

4.1.1.3 Profitability Ratio

Profit is the backbone of the financial institutions and commercial banks. Profitability ratios are very helpful to measure the overall efficiency of operation of a financial institution in a context of banks. Strictly speaking no bank can survive without profit. Profit is the indicator of efficient operation of a bank. The banks obtain profit by providing different services to its customers or by making investment of different kinds. Sufficient profit is must to have good liquidity. To grab investment opportunities, expand banking transaction, finance government in need of development fund, overcome the future contingencies and need fixed internal obligation for a bank. Profitability ratios measure the efficiency of bank. Higher the profit ratio shows the higher the efficiency of a bank. The following profitability ratios are related to study in this heading.

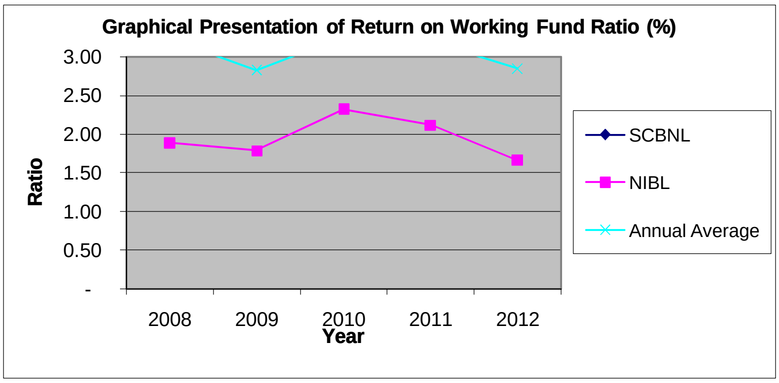
(i) Return on Total Working fund Ratio

Return is the result of investment and it measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank's working fund is well managed and are efficiently utilized; maximizing taxes within the legal options available will also improve the return. Return on Total Working Fund ratio of SCBNL & NIBL from the F.Y. 2008 to 2012 are given below in the table number 4.11 (detail in Appendix K).

Table number 4.11

Return on Total Working Fund Ratio (%)

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	4.56	3.87	4.18	4.27	4.03	4.18	0.20	5.56
NIBL	1.89	1.79	2.32	2.12	1.66	1.96	0.24	12.08
Average	**3.12**	**2.76**	**3.25**	**3.21**	**2.84**			



The table number 4.11 shows that the profitability ratio of SCBNL and NIBL have in F.Y. 2008 to 2012 normal fluctuating trend . SCBNL has highest and lowest ratio 4.56% and 3.87% in the F.Y. 2008 and 2009 respectively. NIBL has highest and lowest ratio 2.32% and 1.66% in the F.Y. 2010 and 2012 respectively .

When the mean ratios are observed that the SCBNL has highest return than that of NIBL i.e. 2.37% >1.32% . So, SCBNL is highly efficiency to earn net profit return as well. On the other hand, C.V. of SCBNL has less than that of NIBL. From the above analysis, it can be said that SCBNL is in strong position in the earning capacity by utilizing its available resources than that of NIBL. So, it is significant and consistently more stable to earn capacity maintained and net profit generated than NIBL.

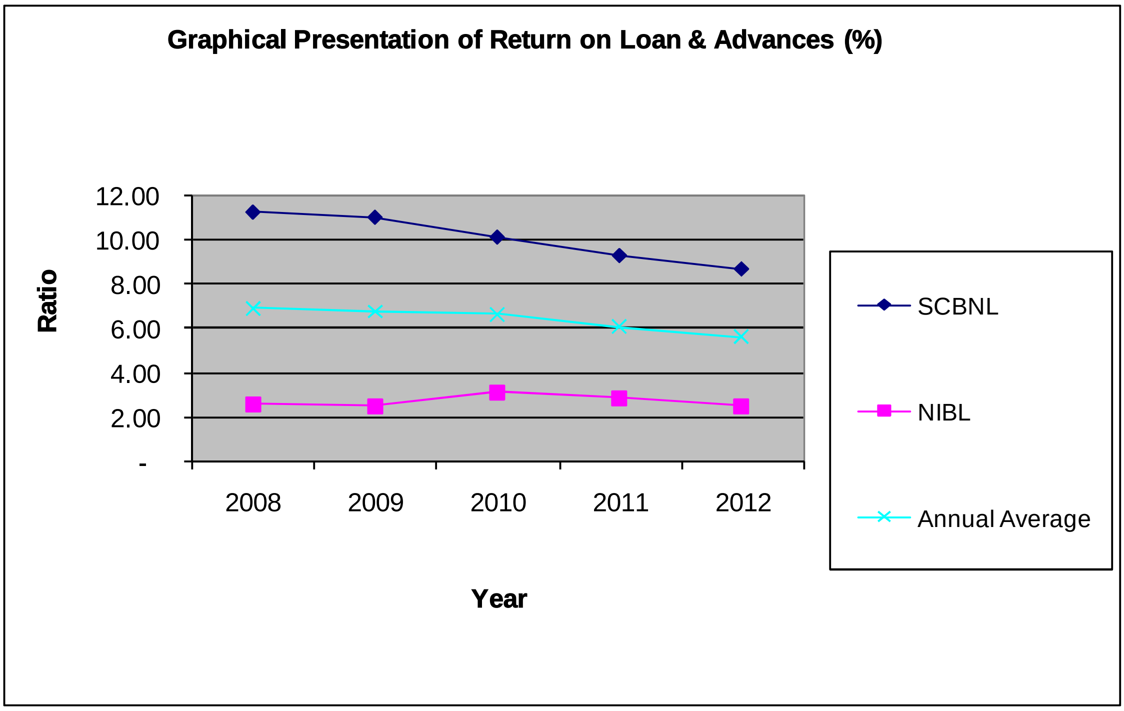
(ii) Return on Loan and Advances Ratio

It measures the earning capacity of commercial banks on its deposits mobilized on loan and advances. Mostly, loan and advances include cash loan, credit, overdraft, bills purchased and discounted etc. The table number 4.12 below shows that return on loan and advances of SCBNL& NIBL (detail in Appendix L).

Table number 4.12

Return on Loan and Advances Ratio (%)

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	11.24	11.01	10.10	9.26	8.65	10.052	0.992	9.87
NIBL	2.58	2.49	3.14	2.86	2.50	2.72	0.2516	9.27
Average	**6.36**	**6.76**	**6.74**	**6.12**	**5.71**			



The above listed table number 4.12 reveals that all bank ratios in the study period have maintained the fluctuating trend and NBBL has increasing trend. The highest and lowest ratio of SCBNL is 11.24% and 8.65% in the F.Y. 2008 and 2012 respectively. The highest and lowest ratio of NIBL is 3.14% and 2.49% in the F.Y. 2010 and 2009 respectively .

The mean ratios of the banks, SCBNL is greater than that of NIBL i.e. 10.052% >2.714%. So, we can say that the SCBNL is strong to mobilize the fund based on loan and advances to return occur than that of other bank.

On the other hand, C.V. of SCBNL is significantly HIgher than that of NIBL i.e. 9.8726% <9.27% . So, NIBL is maintained high return with variability ratios. Thus, it can be concluded that SCBNL is not significantly able to earn high return on its loan and advances in comparison to NIBL.

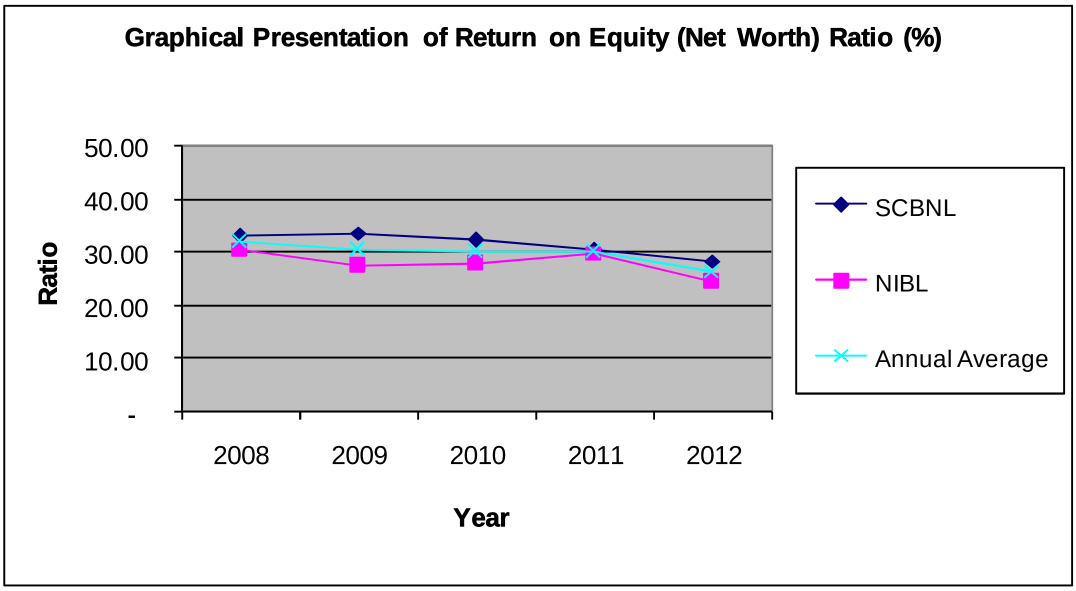
(iii) Return on Equity Ratio

Equity capital is an owned capital of any bank. If bank can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures the extent to which a bank is successful to mobilize its equity. The table number 4.13 below shows that return on equity ratio of SCBNL & NIBL (detail in Appendix P).

Table number 4.13

Return on Equity (Net Worth) Ratio (%)

Bank	Fiscal Year					Mean Ratio	S.D.	C.V. (%)
	2008	2009	2010	2011	2012			
SCBNL	33.06	33.58	32.22	30.43	28.36	31.53	1.911	6.064
NIBL	30.53	27.30	27.80	29.80	24.50	28.586	2.99	10.481
Average	**31.76**	**30.44**	**30.06**	**30.12**	**27.43**			



The above comparative table number 4.13 revels that SCBNL and NIBL have fluctuating trend for the study period from the F.Y. 2008 to 2012 . On the basis on mean ratios of SCBNL is greater than that of NIBL i.e. 33.58% >33.53% in respect to return on equity ratio. It can be concluded that SCBNL comparatively has more efficient utilized its equity capital hence than other banks due to low C.V. and high mean ratio. Commonly, the SCBNL has sound investment policy on equity capital.

(iv) Total Interest earned to Total Working Fund Ratio

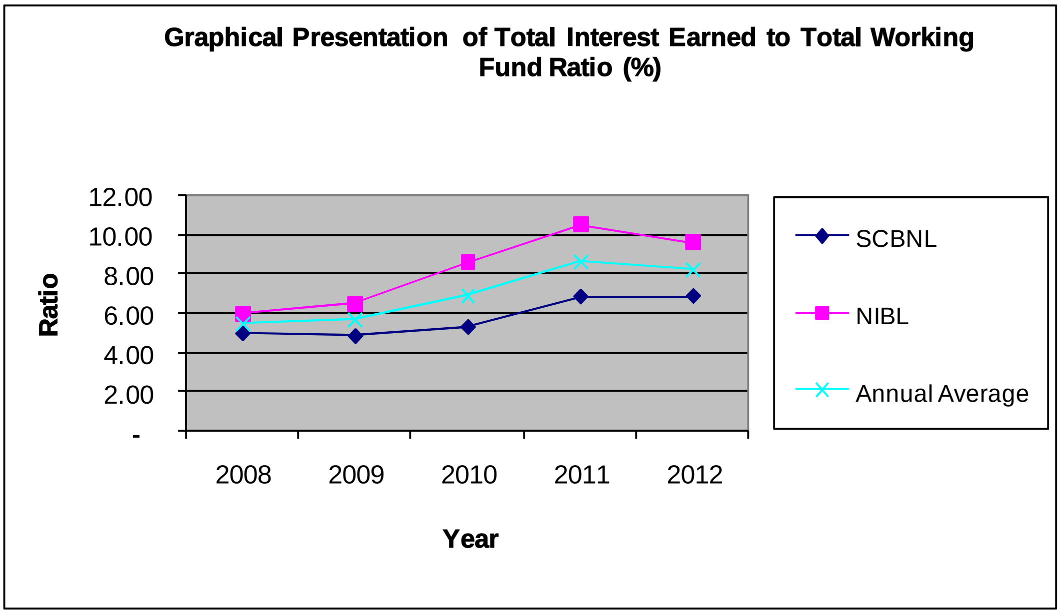
This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is the indicator of high earning power of the bank on its total working fund and vice-versa.

The following table number 4.14 shows the interest earned to total working fund ratios of SCBNL& NIBL detail in Appendix M).

Table number 4.14

Total Interest Earned to Total Working Fund Ratio (%)

Bank	Fiscal Year					Mean Ratio	S.D.	C.V. (%)
	2008	2009	2010	2011	2012			
SCBNL	4.97	4.84	5.29	6.80	6.83	5.75	0.86	15.40
NIBL	5.94	6.49	8.55	10.47	9.35	8.2	1.73	21.21
Average	**5.46**	**5.68**	**6.92**	**8.63**	**8.09**			



The table number 4.14 shows that the ratios of NIBL have fluctuating trend and SCBNL has increasing trend. So, SCBNL has interest earned capacity decreased than that of NIBL on the basis of interest earning ratio of study period.

The mean ratio of SCBNL is less than that of other bank i.e. 6.83% <10.47% So, SCBNL is lower to generate interest income from the total working fund than that of NIBL . On the other hand, C.V. of SCBNL is less than that of NIBL i.e. 15.40% >21.21% It means the position of SCBNL is good in comparison to other banks in regarding total interest earned to total working fund ratio.

Thus, it can be concluded that SCBNL is not able to earn high interest return from the total interest earn in comparison to other banks due to high ratio is an indicator of high earning power of the bank of its total earning fund and vice versa.

(v) Total Interest Paid to Total Working Fund Ratio

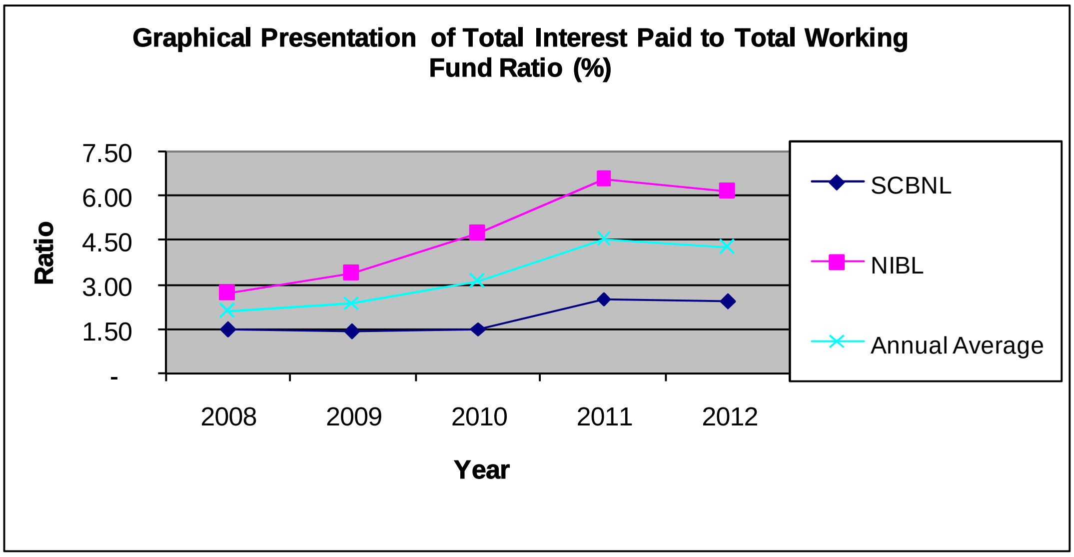
This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund and vice-versa.

The following table number 15 shows the total interest paid to total working fund ratios of SCBNL and NIBL (detail in Appendix N).

Table number 4.15

Total Interest Paid to Total Working Fund Ratio (%)

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	1.47	1.40	1.49	2.15	2.39	1.85	0.49	26.50
NIBL	2.69	3.35	4.69	6.53	6.11	4.67	1.49	32.015
Average	**2.08**	**2.37**	**3.08**	**4.34**	**4.25**			



The table number 4.15 shows that the total interest paid to total working fund ratios of SCBNL and NIBL are in slowly increasing trend. Comparatively, all bank have increased the total interest expenses which aren't the better position of banking generate the income.

The mean ratio of SCBNL is less than that of NIBL i.e. 1.40 %< 2.69% which is better position than that of other bank for "less expenses generate the high income" theory. On the other hand, C.V. of SCBNL is less than NIBL i.e. 26.49%<32.015% which is also better for "less expenses generate high income" theory.

In conclusion, we can say that SCBNL is in better position from payment of interest point of view. It seems to be successful to collect its working fund from less expensive sources in comparison to others.

4.1.1.4 Risk Ratio

The possibility of risk makes banks investment a challenging task. Banking has to take risk to get return on investment. The risk taken is rewarded by the increase in profit. A bank has to take high risk if it expects high return on its investment. So, the bank opting for high profit has to accept the risk and manage it efficiently. The effort on Credit Risk Ratio has been made to measure the level of risk.

(i) Credit Risk Ratio

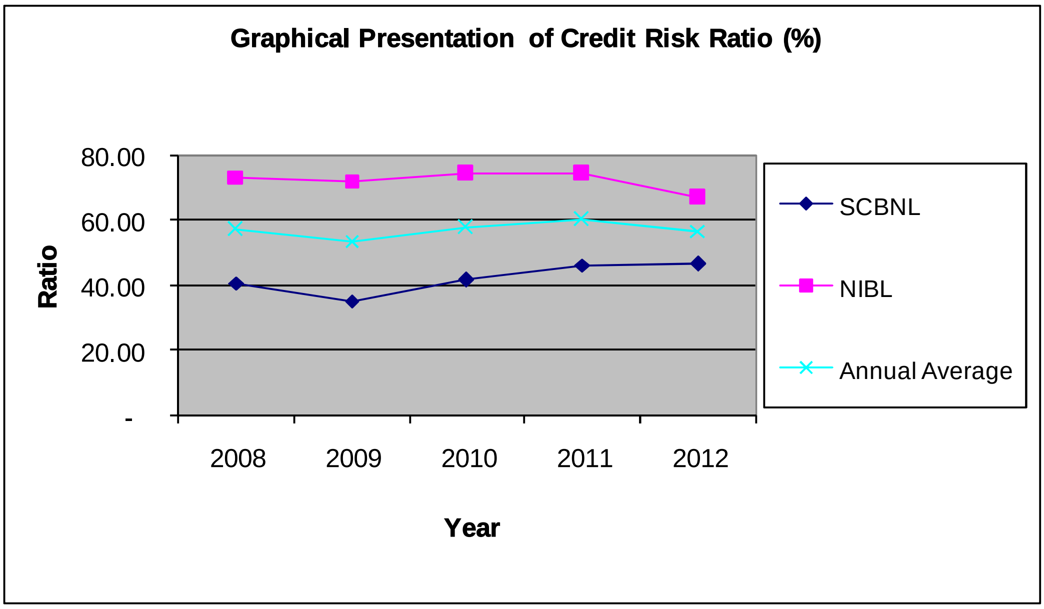
It is very essential for a bank of scrutinize two profit i.e. the risk involved in it to avoid default of non-payment by utilizing its collected fund. The risk behind making investment or granting loan for providing is measured by credit risk ratio. Actually, credit risk ratio shows the proportion of Non-Performing Assets (NPA) in total loan and advances of a bank. But, due to unavailability of related data, the ratio is calculated with the help of loan and advances and total assets.

The following table number 4.16 shows the comparative credit risk ratio of SCBNL& NIBL for the F.Y. 2008 to 2012 (detail in Appendix R).

Table number 4.16

Credit Risk Ratio (%)

Bank	**Fiscal Year**					**Mean Ratio**	**S.D.**	**C.V. (%)**
	2008	2009	2010	2011	2012			
SCBNL	40.61	35.11	41.33	46.06	46.54	41.93	4.17	9.94
NIBL	73.10	71.96	74.06	74.13	66.65	71.98	2.77	3.86
Average	**48.75**	**53.33**	**49.80**	**50.63**	**47.19**			



The table number 4.16 shows that the SCBNL has somewhat fluting ratio where NIBL have constant and decreasing trend. NIBL has maximum and minimum ratio in the F.Y. 2011 and 2012, 74.133% and 66.65% respectively.

The mean ratio of SCBNL is less than other bank i.e. 46.54% <74.13% On the other hand, C.V. of SCBNL is also more than the other bank i.e. 9.94% <3.86% .

From the above analysis, it can be concluded that the SCBNL's degree of risk is lower than that of other banks and its more variability than other bank. It also indicates the stable credit policy of SCBNL is consistent than that of other bank.

4.1.2 Statistical Analysis

All statistical analysis can not be made due to time limit. Under this heading, some statistical tools such as trend analysis of deposits, investment, and net profits as well as hypothesis test (t-test) are used to achieve the objectives of the study. They are as follows:

4.1.2.1Trend analysis and projection for next five years

Under this topic, trend analysis of deposit collection, its utilization and net profit of SCBNL& NIBL are studied. To utilize deposits of commercial bank may grant loan & advances and investment in government securities and share & debentures of other companies. The objective of this topic, trend of deposit, loan & advances, total investment and net profit are forecasted for next five years. The projections are based on the following assumptions.

Assumptions

- The main assumption is that 'other things will remain unchanged'.
- The forecast will be true only when the limitation of least square method is carried out.
- The bank will run in present position.
- The economy will remain in the present stage.
- Nepal Rastra Bank will not change its guidelines to commercial banks.

(i) Trend Analysis of Total Deposit

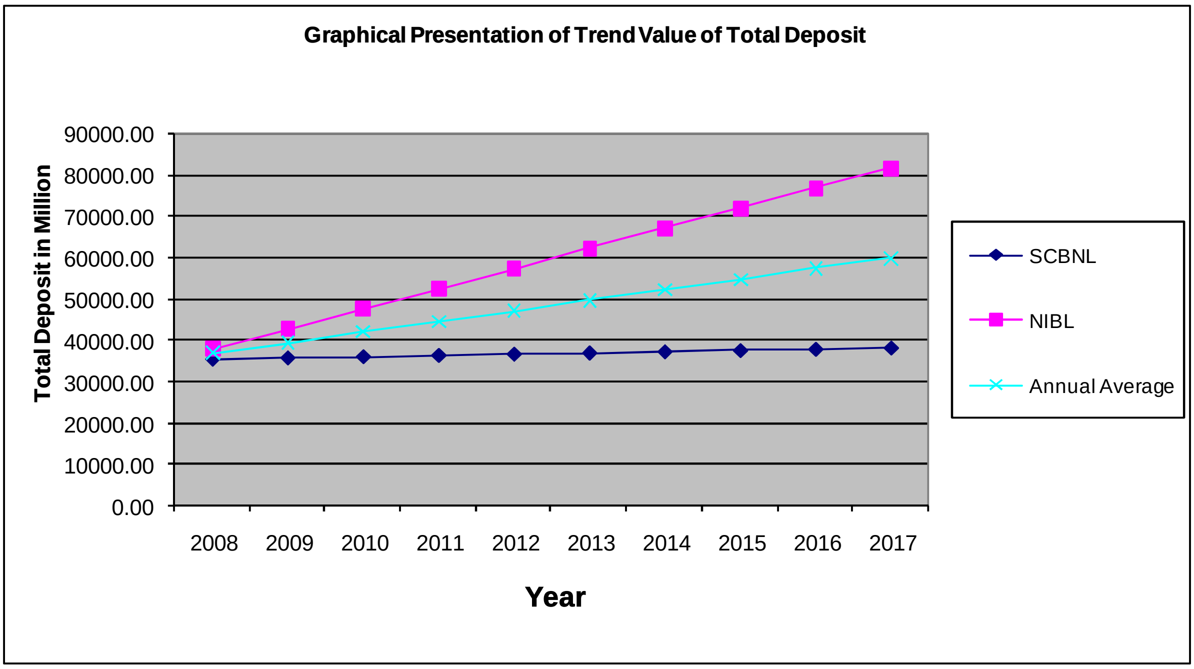
Under this topic, an effort has been made to calculate the trend values of deposit of SCBNL, NIBL for five years from 2008 to 2012 and forecast for next five years from the F.Y. 2013 to 2017 of the SCBNL & NIBL (details in Appendix T& U).

Table number 4.17

Trend Value of Total Deposit of SCBNL & NIBL

Figures are in million rupees

Years	Trend Values SCBNL	Trend Values NIBL
2008	35501.90	37967.18
2009	35803.20	42822.80
2010	36104.50	47678.42
2011	36405.80	52534.04
2012	36707.10	57389.67
2013	37008.40	62245.28
2014	37309.70	67100.90
2015	37611.00	71956.52
2016	37912.30	76812.14
2017	38213.60	81667.76



The above table number 4.17 shows that the deposits of both banks have the increasing trend. If other things remain the same, the total deposit of the SCBNL will be NRs. 38,213.60 million in the F.Y. 2017 that will be the highest deposit amount till that period. Similarly, the total deposit of the NIBL will be NRs. 81667.76 million for the F.Y. 2017.

(ii) Trend Analysis of Total Investment

Under this topic, the trend values of total investment for five years from the F.Y. 2008 to 2012 have been calculated and forecasted for next five years from the F.Y. 2013 to 2017.

The following table number 4.18 shows the trend values of total investment for ten years from the F.Y. 2008 to 2009 of the SCBNL& NIBL (details in Appendix W& X).

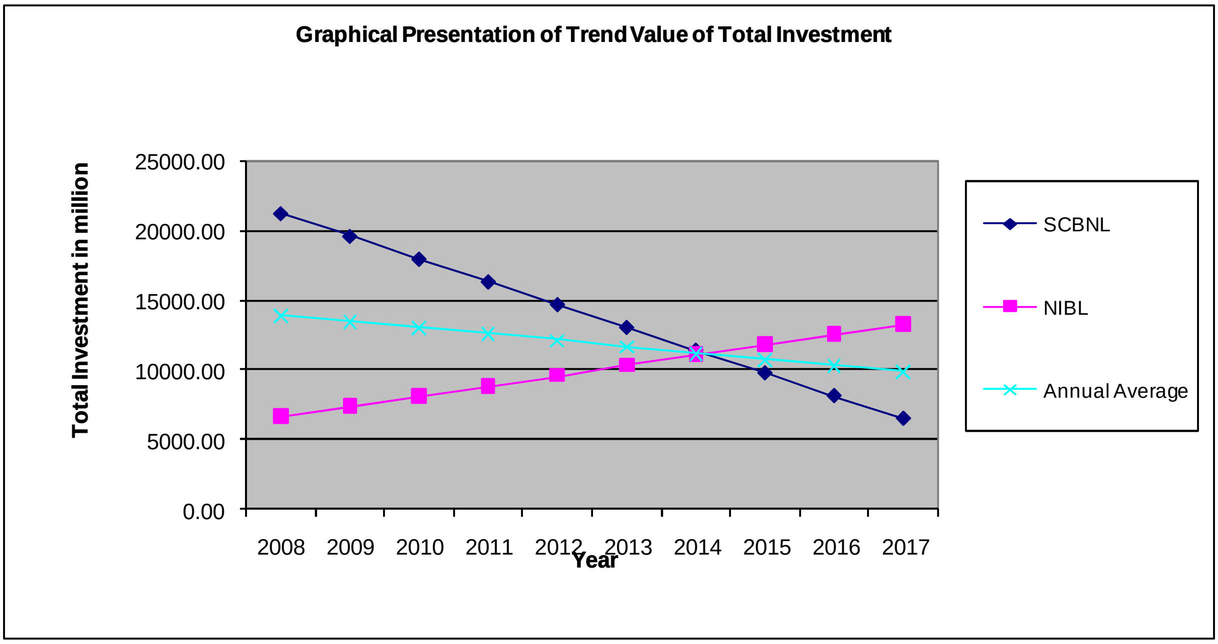
Table number 4.18

Trend Value of Total Investment of SCBNL& NIBL

Figures are in million rupees

Years	Trend Values SCBNL	Trend Values NIBL
2008	21233.29	6723.36
2009	19597.70	7453.59
2010	17962.11	8183.82
2011	16326.52	8914.05
2012	14690.93	9644.28
2013	13054.32	10374.51
2014	11418.39	11104.74

2015	9782.46	11834.94
2016	8146.53	12565.20
2017	6510.60	13295.43



The above table number 4.18 shows that the total investments of NIBL have the increasing trend value. SCBNL has NRs. 21233.29 million in the F.Y. 2008 that is the highest deposit amount till that period. Similarly, the total investment of NIBL have also increasing trend which have the highest value that will be NRs. 13295.42 million.

From above trend analysis, it is found that the total investment of SCBNL is more than other bank but decreasing trend in the study period shows i.e. NRs. 21233.29 million > 9644.28 million and 5,498.38 million in the F.Y. 2017. The investment policy of SCBNL is making higher expending then that of other bank but same trend NIBL will high Investment in 2017 .

(iii) Trend Analysis of Net Profit / (Loss)

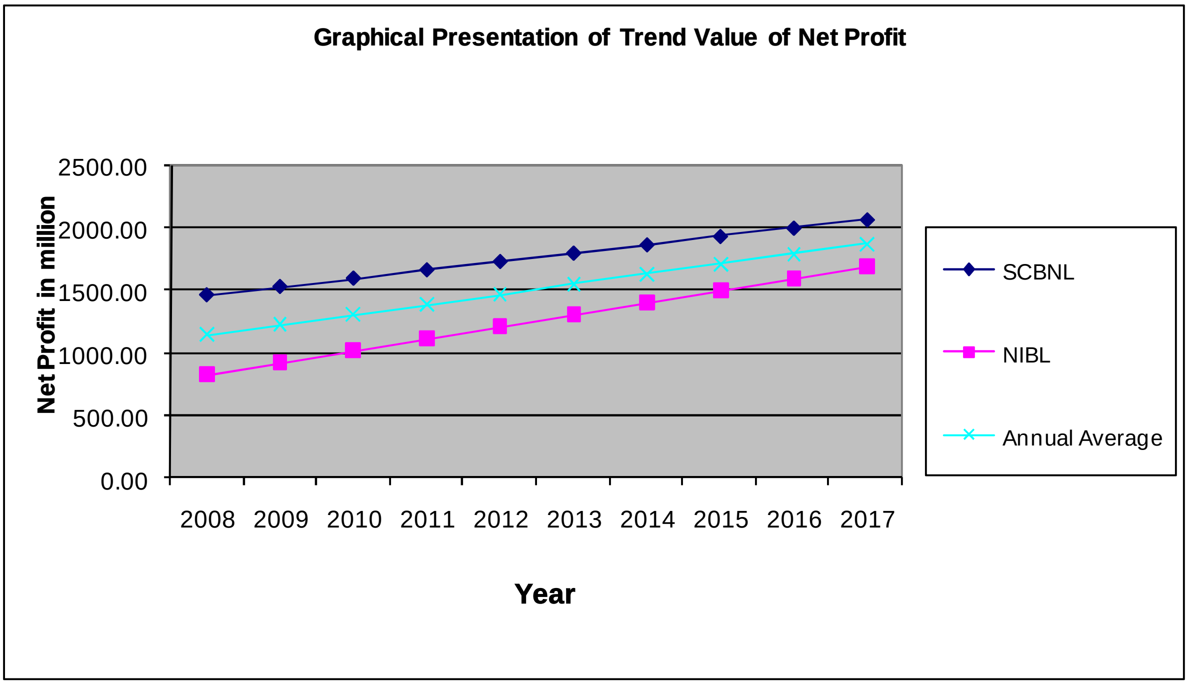
Under this topic, the trend values of net profit for five years from the F.Y. 2008 to 2012 have been calculated and forecasted for next five year from the F.Y. 2013 to 2017 is done. The following table number 4.19 Shows the trend values of net profit for ten years from the F.Y. 2008 to 2009 of the SCBNL & NIBL (details in Appendix Z & A1).

Table number 4.19

Trend Value of Net Profit / (Loss) of SCBNL&NIBL

Figures are in million rupees

Years	Trend Values SCBNL	Trend Values NIBL
2008	1462.48	823.80
2009	1529.22	919.70
2010	1595.96	1015.60
2011	1662.70	1111.50
2012	1729.44	1207.40
2013	1796.18	1303.30
2014	1862.92	1399.20
2015	1929.66	1495.10
2016	1996.40	1591.00
2017	2063.14	1686.90



The above table number 4.19 shows that the net profit of SCBNL and NIBL have increasing trend . SCBNL shows the F.Y. 2017 has NRs. 2063.14million which is increasing the net profit by investment in different sectors. Similarly, the total net profit of NIBL has increasing trend i.e. NRs. 1686.90 million in the F.Y. 2017.

From above trend analysis, it is found that the position of SCBNL in regard to utilization of the fund to earn profit is better in compare to NIBL.

4.1.2.2 Test of Hypothesis

The test of hypothesis is a process of significance regarding the parameter of the population on the basis of the sample drawn from the population (K.N. Shrestha and K.D. Manandhar, **Statistics & Q.T. for Mgmt.** 2nd Edition, p- 6).

Generally, following steps are followed for the test of hypothesis.

(c) Formulating hypothesis
   - Null hypothesis
   - Alternative hypothesis

(d) Computing the test statistics

(e) Fixing the level of significance

(f) Finding critical reason

(g) Deciding two-tailed or one-tailed test

(h) Making decision

<u>t-test</u>

If we draw a large number of smaller samples (i.e. n<30) and compute the mean for each sample and then plot the frequency distribution of these means, the resulting sampling distribution would be t-test. On these study, sample are taken only for five years (i.e. 5<30).

<u>Assumptions</u>

(a) The parent population from which the sample is drawn in normal or approximately normal.

(b) The given sample is drawn by random sampling.

(c) The population standard deviation (S.D.)is not known

(i) Test of hypothesis on Loan & Advances to Total Deposit Ratios between SCBNL & NIBL .

The study is made with among the different ratios, which are calculating in the appendices to carry on major ratios. Here, ratios of loans & advances to total deposits of SCBNL& NIBL are taken and are carried out under t-test of significance difference which to be compare between the SCBNL & NIBL (details in Appendix F)

F.Y.	**SCBNL**			**NIBL**		
	X_1	x_1	x^2_1	X_2	x_2	x^2_2
2008	36.59	4.54	20.61	78.36	4.88	23.81
2009	38.14	3.24	10.50	77.61	(7.46)	55.65
2010	45.35	(0.24)	0.06	80.49	(3.10)	9.61
2011	48.49	(3.74)	13.99	81.96	8.33	69.39
2012	54.44	(3.82)	14.59	73.03	2.66	7.08

we have,

$$\overline{X_1} = \frac{X_1}{n}, \frac{X_2}{n} \ \& \ \frac{X3}{n}$$

$$\overline{X_1} = \frac{170.53}{5}, \overline{X_2}\frac{322.63}{5} \ \& \ \overline{X_3}\frac{373.20}{5}$$

$$\overline{X_1} = 34.11, \overline{X_2}\ X64.53 \ \& \ \overline{X_3}\ X74.64$$

Again,

$$x_1 = (X_1 - \overline{X_1}), x_2 = (X_2 - \overline{X_2}) \& x_3 = (X_3 - \overline{X_3})$$

a. Test of significance of difference between SCBNL & NIBL

Here, Null Hypothesis (Ho): $\overline{X_1} = \overline{X_2}$

i.e. there is no significant difference between mean ratios of loan & advances to total deposit of SCBNL & NIBL (where $\overline{X_1}$ is mean ratio of SCBNL and is $\overline{X_2}$ mean ratio of NIBL.

Alternative Hypothesis (H_1): $\overline{X_1} \mid \overline{X_2}$ (two-tailed test)

i.e. there is significant difference between mean ratios of loan & advances to total deposit of SCBNL & NIBL (where $\overline{X_1}$ is mean ratio of SCBNL and is $\overline{X_2}$ mean ratio of NIBL.

Under Ho the test statistics is given by

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{with...d.f.} = n_1 + n_2 - 2$$

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left(x_1^2 + x_2^2 \right)$$

$$= \frac{1}{5+5-2} \left(59.75 + 165.54 \right)$$

$$= \frac{1}{8} \left(225.29 \right)$$

$$= 28.16$$

Now,

Test Statistics under Ho is,

$$t = \frac{34.11 - 64.53}{\sqrt{28.16 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= \frac{-30.42}{\sqrt{11.26}} = \frac{-30.42}{3.36} = -9.05$$

The calculated value |t| = 9.05

Tabulated value of 't' (two tailed test) at 5% level of (n1 + n2 -2) d.f. i.e. 8 d.f. is 2.306.

Decision

The calculated value of /t/ it greater than the tabulated value i.e. 9.05>2.306. The null hypothesis is rejected and alternative hypothesis is accepted. So, the difference between the mean ratios of loan and advances to total deposits of SCBNL & NIBL is significant.

(ii) Test of hypothesis on Total Investment to Total Deposit Ratios between SCBNL & NIBL .

Here, ratios of total investment to total deposits of SCBNL& NIBL are taken and are carried out under t-test of significance difference which to be compare between the SCBNL & NIBL (details in Appendix G)

F.Y.	**SCBNL**			**NIBL**		
	X_1	x_1	x^2_1	X_2	x_2	x^2_2
2008	55.27	(24.59)	604.67	19.95	(6.65)	44.22
2009	56.41	10.73	115.13	15.84	0.00	0
2010	56.13	7.35	54.02	17.24	(1.67)	2.79
2011	45.42	4.01	16.08	15.10	(2.00)	4
2012	35.98	2.48	6.15	18.31	10.31	106.30
n X5	X_1 X255.73		x_1^2 X796.05	X_2 X35.27		x_2^2 X157.3

We have,

$$\overline{X_1} = \frac{X_1}{n}, \frac{X_2}{n} \ \& \ \frac{X3}{n}$$

$$\overline{X_1} = \frac{255.73}{5}, \overline{X_2}\frac{35.27}{5} \ \& \overline{X_3}\frac{65.84}{5}$$

$$\overline{X_1} = 51.15, \overline{X_2} \text{ X}7.05 \ \& \overline{X_3} \text{ X}13.17$$

Again,

$$x_1 = (X_1 - \overline{X_1}), x_2 = (X_2 - \overline{X_2}) \& x_3 = (X_3 - \overline{X_3})$$

a. Test of significance of difference between SCBNL & NIBL

Here, Null Hypothesis (Ho): $\overline{X_1} = \overline{X_2}$

i.e. there is no significant difference between mean ratios of total investment to total deposit of SCBNL & NIBL (where $\overline{X_1}$ is mean ratio of SCBNL and is $\overline{X_2}$ mean ratio of NIBL.

Alternative Hypothesis (H_1): $\overline{X_1} \mid \overline{X_2}$ (two-tailed test)

i.e. there is significant difference between mean ratios of total investment to total deposit of SCBNL & NIBL (where $\overline{X_1}$ is mean ratio of SCBNL and is $\overline{X_2}$ mean ratio of NIBL.

Under Ho the test statistics is given by

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{S^2 \quad \frac{1}{n_1} + \frac{1}{n_2}}} \text{ with...d.f.} = n_1 + n_2 - 2$$

Where,

$$S^2 = \frac{1}{n_1+n_2-2}\left[\sum x_1^2 + \sum x_2^2\right]$$

$$= \frac{1}{5+5-2}\left[796.05 + 157.31\right]$$

$$= \frac{1}{8}\left[953.36\right]$$

$$= 119.17$$

Now,
Test Statistics under Ho is,

$$t = \frac{51.15-7.05}{\sqrt{119.17\left(\frac{1}{5}+\frac{1}{5}\right)}}$$

$$= \frac{44.10}{\sqrt{47.67}} = \frac{44.10}{6.90} = 6.39$$

The calculated value t = 6.39

Tabulated value of 't' (two tailed test) at 5% level of (n1 + n2 -2) d.f. i.e. 8 d.f. is 2.306.

Decision

The calculated value of 't' it greater than the tabulated value i.e. 6.39>2.306. The null hypothesis is rejected and alternative hypothesis is accepted. So, the difference between the mean ratios of total investment to total deposits of SCBNL & NIBL is significant.

(iii) Test of hypothesis on Investment on Government Securities to Current Assets Ratios between SCBNL & NIBL .

Here, ratios of investment on government securities to current assets of SCBNL&NIBL are taken and are carried out under t-test of significance difference which to be compare between the SCBNL & NIBL (details in Appendix D)

F.Y.	SCBNL			NIBL		
	X_1	x_1	x^2_1	X_2	x_2	x^2_2
2008	25.43	(8.51)	72.42	8.54	(7.75)	60.06
2009	25.71	(3.53)	12.46	5.03	1.01	1.02
2010	22.21	3.00	9.00	7.19	(1.03)	1.06
2011	23.44	3.77	14.21	6.46	(2.43)	5.91
2012	18.69	5.27	27.77	8.46	10.21	104.24
$n = 5$	$\sum X_1 = 142.80$		$\sum x_1^2 = 135.86$	$\sum X_2 = 38.76$		$\sum x_2^2 = 172.29$

We have,

$$\overline{X_1} = \frac{X_1}{n}, \frac{X_2}{n} \ \& \ \frac{X3}{n}$$

$$\overline{X_1} = \frac{142.80}{5}, \overline{X_2}\frac{38.76}{5} \ \& \overline{X_3}\frac{54.06}{5}$$

$$\overline{X_1} = 28.56, \overline{X_2} = 7.75 \ \& \overline{X_3} = 10.81$$

Again,

$$x_1 = (X_1 - \overline{X_1}), x_2 = (X_2 - \overline{X_2}) \& x_3 = (X_3 - \overline{X_3})$$

a. Test of significance of difference between SCBNL & NIBL

Here, Null Hypothesis (Ho): $\overline{X_1} = \overline{X_2}$

i.e. there is no significant difference between mean ratios of investment on government securities to current assets of SCBNL & NIBL (where $\overline{X_1}$ is mean ratio of SCBNL and is $\overline{X_2}$ mean ratio of NIBL).

Alternative Hypothesis (H_1): $\overline{X_1} \neq \overline{X_2}$ (two-tailed test)

i.e. there is significant difference between mean ratios of investment on government securities to current assets of SCBNL & NIBL (where $\overline{X_1}$ is mean ratio of SCBNL and is $\overline{X_2}$ mean ratio of NIBL).

Under Ho the test statistics is given by

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} \text{ with...d.f.} = n_1 + n_2 - 2$$

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2}\left[\sum x_1^2 + \sum x_2^2\right]$$

$$= \frac{1}{5+5-2}\left[135.86 + 172.29\right]$$

$$= \frac{1}{8}\left[308.15\right]$$

$$= 38.52$$

Now,
Test Statistics under Ho is,

$$t = \frac{28.56\text{-}7.75}{\sqrt{38.52 \quad \frac{1}{5} \Gamma \frac{1}{5}}}$$

$$= \frac{20.81}{\sqrt{15.41}} X \frac{20.81}{3.93} X5.30$$

The calculated value t = 5.30

Tabulated value of 't' (two tailed test) at 5% level of (n1 + n2 -2) d.f. i.e. 8 d.f. is 2.306.

Decision

The calculated value of 't' it greater than the tabulated value i.e. 5.30>2.306. The null hypothesis is rejected and alternative hypothesis is accepted. So, the difference between the mean ratios of investment on government securities to current assets of SCBNL & NIBL is significant.

(iv) Test of hypothesis on Loan & Advances to Current Assets Ratios between SCBNL & NIBL .

Here, ratios of loan & advances to current assets of SCBNL& NIBL are taken and are carried out under t-test of significance difference which to be compare between the SCBNL & NIBL (details in Appendix E)

F.Y.	SCBNL			NIBL		
	X_1	x_1	x^2_1	X_2	x_2	x^2_2
2008	40.61	0.55	0.30	73.10	(13.45)	180.90
2009	35.11	1.36	1.85	71.96	2.20	4.84
2010	41.33	0.64	0.41	74.06	8.01	64.16
2011	46.06	(1.23)	1.51	74.13	8.02	64.32
2012	46.54	(1.34)	1.80	66.65	(4.78)	22.85
$n X5$	X_1 X143.08		x_1^2 X5.87	X_1 X34		x_2^2 X337.07

We have,

$$\overline{X_1} = \frac{X_1}{n}, \frac{X_2}{n} \ \& \ \frac{X3}{n}$$

$$\overline{X_1} = \frac{143.08}{5}, \overline{X_2} \frac{343.80}{5} \ \& \overline{X_3} \frac{339.88}{5}$$

$$\overline{X_1} = 28.62, \overline{X_2} \ X68.76 \ \& \overline{X_3} \ X67.98$$

Again,

$x_1 = (X_1 - \overline{X}_1),\ x_2 = (X_2 - \overline{X}_2)\ \&\ x_3 = (X_3 - \overline{X}_3)$

a. Test of significance of difference between SCBNL & NIBL

Here, Null Hypothesis (Ho): $\overline{X}_1 = \overline{X}_2$

i.e. there is no significant difference between mean ratios of loan & advances to current assets of SCBNL & NIBL (where $\overline{X}_1$ is mean ratio of SCBNL and is $\overline{X}_2$ mean ratio of NIBL).

Alternative Hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test)

i.e. there is significant difference between mean ratios of loan & advances to current assets of SCBNL & NIBL (where $\overline{X}_1$ is mean ratio of SCBNL and is $\overline{X}_2$ mean ratio of NIBL).

Under Ho the test statistics is given by

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} \text{ with...d.f.} = n_1 + n_2 - 2$$

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2}\left(x_1^2 + x_2^2\right)$$

$$= \frac{1}{5+5-2}(5.87 + 337.07)$$

$$= \frac{1}{8}(342.94)$$

$$= 42.87$$

Now,
Test Statistics under Ho is,

$$t = \frac{28.62 - 68.76}{\sqrt{42.87\left(\frac{1}{5} + \frac{1}{5}\right)}}$$

$$= \frac{-40.14}{\sqrt{17.15}} X \frac{Z40.14}{4.14} XZ9.70$$

The calculated value /t/ = 9.70

Tabulated value of 't' (two tailed test) at 5% level of (n1 + n2 -2) d.f. i.e. 8 d.f. is 2.306.

Decision

The calculated value of 't' it greater than the tabulated value i.e. 9.70>2.306. The null hypothesis is rejected and alternative hypothesis is accepted. So, the difference between the mean ratios of loan & advances to current assets of SCBNL & NIBL is significant.

Decision

The calculated value of t it greater than the tabulated value i.e. 15.14>2.306. The null hypothesis is rejected and alternative hypothesis is accepted. So, the difference between the mean ratios of loan & advances to current assets of SCBNL & NBBL is significant.

(v) Test of hypothesis of Return on Loan & Advances Ratios between SCBNL & NIBL .

Here, ratios of return on loan & advances ratios of SCBNL and NIBL are taken and are carried out under t-test of significance difference which to be compare between the SCBNL & NIBL (details in Appendix L)

F.Y.	**SCBNL**			**NIBL**		
	X_1	x_1	x^2_1	X_2	x_2	x^2_2
2008	11.24	(0.28)	0.08	2.58	1.07	1.15
2009	11.01	(0.88)	0.77	2.49	0.12	0.01
2010	10.10	0.57	0.33	3.14	(0.21)	0.04
2011	9.26	0.54	0.29	2.86	(0.42)	0.18
2012	8.65	0.03	0.001	2.50	(0.30)	0.09
$n X5$	$X_1 X41.78$		$x_1^2 X1.47$	$X_1 X12.22$		$x_2^2 X1.47$

We have,

$$\overline{X_1} = \frac{X_1}{n}, \frac{X_2}{n} \ \& \ \frac{X3}{n}$$

$$\overline{X_1} = \frac{41.78}{5}, \overline{X_2}\frac{12.22}{5} \ \& \overline{X_3}\frac{7.60}{5}$$

$$\overline{X_1} = 8.36, \overline{X_2} \ X2.44 \ \& \overline{X_3} \ X1.52$$

Again,

$x_1 = (X_1 - \overline{X_1}), x_2 = (X_2 - \overline{X_2}) \& x_3 = (X_3 - \overline{X_3})$

a. Test of significance of difference between SCBNL & NIBL

Here, Null Hypothesis (Ho): $\overline{X_1} = \overline{X_2}$

i.e. there is no significant difference between mean ratios of return on loan & advances of SCBNL & NIBL (where $\overline{X_1}$ is mean ratio of SCBNL and is $\overline{X_2}$ mean ratio of NIBL).

Alternative Hypothesis (H_1): $\overline{X_1} \neq \overline{X_2}$ (two-tailed test)

i.e. there is significant difference between mean ratios of return on loan & advances of SCBNL & NIBL (where $\overline{X_1}$ is mean ratio of SCBNL and is $\overline{X_2}$ mean ratio of NIBL).

Under Ho the test statistics is given by

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} \text{ with...d.f.} = n_1 + n_2 - 2$$

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2}\left\{\sum x_1^2 + \sum x_2^2\right\}$$

$$= \frac{1}{5+5-2}\left\{1.47 + 1.47\right\}$$

$$= \frac{1}{8}\left\{2.94\right\}$$

$= 0.37$

Now,

Test Statistics under Ho is,

$$t = \frac{8.36 - 2.44}{\sqrt{0.37\left(\frac{1}{5} + \frac{1}{5}\right)}}$$

$$= \frac{5.92}{\sqrt{0.15}} \text{ X } \frac{5.92}{0.39} \text{ X} 15.18$$

The calculated value t = 15.18

Tabulated value of 't' (two tailed test) at 5% level of (n1 + n2 -2) d.f. i.e. 8 d.f. is 2.306.

Decision

The calculated value of 't' it greater than the tabulated value i.e. 15.18>2.306. The null hypothesis is rejected and alternative hypothesis is accepted. So, the difference between the mean ratios of return on loan & advances of SCBNL & NIBL is significant.

4.1.3 Major Findings

The major findings of the study are derived on the analysis of financial data of SCBNL in comparison to NIBL that are given below.

From the analysis of Liquidity Ratio

The liquidity position of SCBNL& NIBL reveal that:

- It is found that the mean liquidity ratio of SCBNL is slightly lower than that of other banks. It means SCBNL has maintained the somewhat lower liquidity and high risks in compared to NIBL. Consistency of maintaining liquidity position of SCBNL is more than that of other banks. From the point of view of working capital policy NIBL has followed the aggressive working capital policy by attracting more Current Liabilities i.e. current and saving deposits and deploying them into liquid sector.

- The mean ratio of cash and bank balance to total deposits of SCBNL is lower than that of NIBL. It is less than the NRB's minimum requirement. It states that the liquidity position of SCBNL is lower in this regard. It can create liquidity risk of SCBNL. Variability of ratio of SCBNL is inconsistent in comparison to NIBL.

- The mean ratio of cash & bank balance to current assets of SCBNL is less than NIBL and the variability of ratio during the study period is more uniform i.e. less uniform than NIBL.

- The mean ratio of investment on government securities to current asset of SCBNL has been found higher than that of NIBL. However, SCBNL Through securities issued by government are considered to be free of risk of default but such securities yield the lower interest rate in the comparison to the investment on share & debentures.
- The mean ratio of loan & advances to current asset of SCBNL is less than that of other banks. The SCBNL has invested certain amount of its deposit on loan & advance. Loan & advances is a main source to generate more profit of the

bank. Due to the less investment on loan & advances, the interest income will be less which is major source of income. This can have an adverse effect on the overall profitability of the bank. SCBNL's variability of ratio is less than that of NIBL.

<u>From the analysis of Assets Management Ratio</u>

The assets management ratio of SCBNL & NIBL reveals that:

- The mean ratio of loan & advances to total deposit of SCBNL is lower than that of NIBL. It can be concluded that SCBNL gives high emphasis on fee based (Off Balance Sheet) activities and low emphasis on loan & advances in comparison to its total deposit than NIBL. Likewise, the variability of ratio during the study period is less uniform than that of NIBL.

- The mean ratio of total investment to total deposit of SCBNL is higher than that of NIBL (i.e. 56.41% Ψ19.95%) and the trend of ratios is higher than that of compared banks. SCBNL's variability of ratio is less than that of NIBL and.

- In case of loan & advances to working fund ratio, SCBNL is lower mean ratio than that of NIBL (i.e. 46.13% Φ74.54%). But, the trends of ratios are high consistent than that of NIBL.

- In mean ratio of investment on government securities to total working fund ratio of SCBNL is greater than that of NIBL (i.e. 25.71% Ψ8.46%). Similarly, the ratio of SCBNL is more consistent than that of other compared bank.

- SCBNL has maintained lower mean ratio in investment on share & debenture to total working fund ratio than that of NIBL. It indicates that the position of SCBNL is lower in this regard. Consequently, the variability of the ratio of SCBNL is higher than that of other compared bank.

<u>From the analysis of Profitability Ratio</u>

The profitability ratio of SCBNL& NIBL reveals that:

- The mean ratio of return on total working fund of SCBNL is greater than NIBL. Consequently, the consistency of ratio is also greater than other compared bank.

- The mean ratio of return on loan & advances of SCBNL is higher than other banks although it has invested the less percentage of investment on loan & advances in comparison to NIBL. With the help of above analytical results, it can be said that the SCBNL has been investing as loan & advances to the good customers. Its earning consistency is also sound than that of NIBL

- The mean ratio of return on equity of SCBNL is higher than that of NIBL. The return on equity ratio of the SCBNL is consistent than NIBL. Comparatively, SCBNL has efficiently utilized its equity capital.

- The mean ratio of total interest earned to total working fund of SCBNL is lowest of NIBL(i.e. 6.83% Φ10.47%). The total interest earned to total working fund ratio of SCBNL is variable in comparison to NIBL.

- The mean ratio of total interest paid to total working fund of SCBNL is lower than other bank. It means SCBNL has paid the lowest interest expenses than that of NIBL. The ratio of SCBNL is less consistent than that of NIBL .

<u>From the analysis of Credit Risk Ratio</u>

The risk taken is rewarded by the increase in profit. A bank has to take high risk if it expects high return on its investment. So, the bank opting for high profit has to accept the risk and manage it efficiently. The effort on Credit Risk Ratio has been made to measure the level of risk.

- The risk ratio of SCBNL& NIBL show that the mean ratio of SCBNL is lower than that of NIBL. SCBNL's degree of risk is lower than that of other bank and its more variability than other bank. It also indicates the stable credit policy of SCBNL is consistent than that of other bank.

<u>From the Analysis of Trend Value and Projection for Next Five Years</u>

The trend analysis of total deposit, total investment and net profit / (loss) and projection for next five years of SCBNL and NIBL reveals that:

- The deposit of all the three banks has increasing trend. The total deposit of NIBL will be NRs. 81667.76 million in the F.Y. 2017 which is the highest deposit among the study period. Similarly, the total deposit of SCBNL will be NRs. 38213.60 in the F.Y. 2017 respectively. The deposit collection position of SCBNL is the most outstanding in comparison to NIBL.

- The total investment of SCBNL has decreasing trend. The total investment of SCBNL will be NRs. 6510.60 in the F.Y. 2017 which is less than NIBL. Similarly, the investment NIBL will be NRs. 13295 million in the F.Y. 2017. Under the review period, the SCBNL's investment policy is better now but decreasing position but NIBL is Increasing .

- The net profit of SCBNL and NIBL are increasing trend . The net profit of SCBNL will be NRs. 2063.14million in the F.Y. 2017 that is the highest net profit among the study period. Similarly, the net profit of NIBL will be NRs. 1686.90 million in the F.Y. 2017. The position of SCBNL is better than that of other compared bank in regard to utilization of the fund to earn profit.

From the analysis of Test of Hypothesis (t-test)

The test of hypothesis is a process of significance regarding the parameter of the population on the basis of the sample drawn from the population.

- In case of test of significance difference on loan & advances to total deposit ratios between SCBNL & NIBL, it is found that there is significant difference between the mean ratio of SCBNL with the mean ratio of NIBL .
- There is significance difference on total investment to total deposit ratio between SCBNL & NIBL, it is found that there is significant difference between the mean ratio of SCBNL with the mean ratio of NIBL .
- There is significant difference between the mean ratios of investment on government securities to current assets of SCBNL & NIBL.
- There is significant difference between the mean ratios of loan & advances to current asset of SCBNL & NIBL.
- There is significant difference between the mean ratios of return on loan & advances of SCBNL & NIBL.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The development of every country is always measured by its economic indices. Thus, every county has given emphasis on enlistment of its economy. Now a day, the financial institutions are viewed as catalyst for the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. The Nepalese economy is dominated by agriculture sector. Economic status of Nepal is very poor. The main problem of a poor economy is an inadequate degree of capital formation, which is the result of insufficient saving made by the customers. Every well established financial institution plays an important role for the development of a country. Commercial banks are the main financial institutions which collect scattered financial resources as deposits from the general public and mobilize that fund among these who are associated with the economic, commercial and social activities of a country as loan & advances and other investment. A sound investment policy of a commercial bank plays a vital role for mobilization of fund and development of the country. Commercial banks are those financial institutions that collect scattered saving from the mass and mobilize the funds into productive sectors that ultimately help to develop sound economic growth of county. In the modern economy, banks are to be considered not as deals in money but also as the leaders of development of a country. "Banks are not just the store houses to the country's wealth but are reservoirs resources necessary for economic development." **(Grywinski; 1993:87)**

SCBNL is the third joint venture bank that is established in 1987 in Nepal. The SCBNL is also playing vital role in generating sound Nepalese economy. SCBNL is one of the leading commercial bank in Nepal which has covered significant market in Nepal. SCBNL has offered a full range of banking products and services in wholesale and consumer banking, catering to a wide range of customers from individuals, to mid market, local corporate to multinationals and large public sector companies as well as embassies, aid agencies, airlines, hotels and government corporation. The SCBNL has maintained itself as a leading joint venture bank in Nepal. Now a day, there are so many commercial banks in the market. The SCBNL has been facing competitions with other commercial banks in Nepal. To maintain its current reputation, the SCBNL should make sound investment policy day by day.

Investment analysis is done to know and evaluate the SCBNL and NIBL investment policy which the banks currently adopted. Investment analysis helps to identify the bank's current strengths and weakness and to suggest taking action that might enable the banks to take the advantage of their strengths and correct their weakness.

The main objective of the study is to evaluate the investment policy of SCBNL&NIBL and to suggest measures to improve the investment policy of the banks. The study is mainly based on secondary data from the F.Y. 2008 to 2012. the data have been basically obtained from annual reports and financial statements, official records, journals and bulletins, various published reports, relevant unpublished master's degree thesis, the concern banks' website and Nepal Stock Exchange's website.

By using financial and statistical tools, the overall investment performance of the banks has tried to analyze. The various ratios show the investment position of the SCBNL and NIBL over the five years period. Trend analysis is used to find out the trend of some important tools like total deposit, loan & advances, net profit & total investment on the basis of past data of the banks. This can be used to predict the value of these elements in future. Similarly, t-test analysis of different variables between SCBNL & NIBL have been made to know whether there are significant different or not.

5.2 Conclusion

- From the analysis of liquidity ratio, it is found that the SCBNL has satisfactory liquidity position but not best liquidity position. However, the overall ratio shows that the bank is able to meet its short term obligations.
- The portion of investment of its fund made by SCBNL in risk free assets (investment in government securities) is greater than in risky assets (loan & advances). It means the bank is efficiently mobilizing its assts however the amount of deposit is increasing significantly. It can be concluded that the bank is trying to avoid the unnecessary risk associated with loan & advances and share & debentures of other companies and wants to follow secured investment policy by investing more in government securities. It can also be

called that the increment in the amount of loan & advances is not sufficient like NIBL and as per increment on total deposit.

- From the analysis of investment of SCBNL on shares & debentures, it shows that it has mobilized its less percentage of funds on shares & debentures of other companies. It may be the result of unstable political scenario of the country or unavailability of any other returnable sector or they all are risk average.
- Analyzing the profitability ratio, it can be concluded that the profit earned by the SCBNL is better than that of NIBL. It can be concluded that the increment in the amount of loan & advances as well as shareholders' wealth is not sufficient as per increment of net profit.
- From this study, it can be concluded that the trend value of total deposit, total investment and net profit are in better increasing trend in comparison to NIBL. It means, if other things remain same, the SCBNL will increase its deposit, investment in government securities and net profit in future.
- In case of test of significance difference on loan & advances to total deposit ratios between SCBNL & NIBL, it is found that there is significant difference between the mean ratio of SCBNL with the mean ratio of NIBL . It can be concluded that the SCBNL has own better policy of loan & advances and deposit.
- There is significance difference on total investment to total deposit ratio between SCBNL & NIBL, it is found that there is significant difference between the mean ratio of SCBNL with the mean ratio of NIBL . It can be concluded that the SCBNL has own better policy of investing its deposit money.
- There is significant difference between the mean ratios of investment on government securities to current assets of SCBNL & NIBL . It means that the SCBNL has giving more priority than that of NIBL to invest its fund in risk free asset.
- There is significant difference between the mean ratios of loan & advances to current asset of SCBNL & NIBL. There are different policies adopted by the banks in investment on loan & advances from their current assets.

5.3 Recommendation

On the basis of analysis and findings of the study, following recommendations can be forwarded as suggestions to improve present fund mobilization and investment policy of SCBNL. Other commercial banks can adopt the strength of SCBNL.

- The liquidity ratio is less than normal standard ratio of 2:1. So, the banks are recommended to maintain their liquidity position in normal standard. However, the ratio 1:1 or above would be considered acceptable.
- Cash & Bank balance to total deposit ratio is less that the NRB's minimum requirement (i.e.12% of deposit liability). It can create liquidity risk of the banks. So, it is recommended that the banks should maintain the minimum requirement of cash & Bank Balance.
- In regarding investment on government securities, it has been revealed that SCBNL has given more priority to invest its fund in government securities than that of other compared banks. Through securities issued by the government is considered to be free of risk of default but such securities yield the lower interest rate of particular maturity due to low risk feature. Now, the country is in peace process, after restoration of peace in the country, it is recommended to give more emphasis to invest and diversify in productive areas like hydropower, and other manufacturing industries So that the bank can earn more yields.

- In the light of growing competition in the banking sector the business of the bank should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool of attracting and retaining customers. For this purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way. Looking at the current trend of banking business, a bank must be very careful while formulating marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is recommended that SCBNL should develop innovative approach to banks marketing for its well being and sustainability n the market upgrade the banking facilities so as to cope with the changing environment of the banking business. SCBNL is suggested to introduce the modern facilities and emphasis should be given on research and development.

- Due to green signal in political stability in the country, the bank will have more investment opportunities in different sectors, it is recommended to collect a large variety of deposits through schemes like cumulative deposit scheme, price bonds scheme, gift cheques scheme, recurring scheme, deposits like life insurance scheme, monthly interest scheme and many other schemes.

- A commercial bank must mobilize its fund in different sector such as purchase share & debentures of other companies out of total working fund. SCBNL has invested its more portions of funds in comparison to NIBL but percentage of investment of share and debentures to working fund ratio is very nominal. So, SCBNL is recommended to invest its more funds in different types of companies in different areas.

- To get success in competitive banking environment, depositor's money must be utilized as loan & advances. The largest item of the bank in the assets side is loan & advances. If it is neglected, then it could e the main cause of liquidity crisis in the bank and one of the main reasons for a bank's failure. It has been found from the study that SCBNL is lower position to mobilize its total deposits as loan & advances in comparison to other banks. Its stability is not consistent than NIBL. To overcome this situation, SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit in loan & advances and similarly to maintain more stability on the investment policy.

- The fee-based activities of bank are found to be very profitable and important now a day in banking business. These are commission, discount and fees. They yield high return to bank. SCBNL is in a better position regarding the proportion of bee based activities in comparison with other banks. SCBNL is strongly recommended to maintain continuity and more consistency in the usage of this item.

- The investment policy of SCBNL is good in every respect as studied above but the consistency in the above investment sectors should be in an equilibrium position. It is found that at times, bank focuses much of its attention to one sector leaving the other sectors untouched. So, it is recommended to touch all the sectors and balance it effectively to have the optimal performance of the bank.

- SCBNL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor's fund. It is also recommended that the bank should fix minimum level of bank balance and the amount needed to open an account should also be affordable for such small depositors.

- Investment policy yields from the investment, SCBNL has successfully invested on government securities, loan & advances and gain more return. So, it is strongly recommended that SCBNL should continuing initiate strong steps for the recovery part which in future can show high growth in profitability and for that SCBNL should take continuing more consistent liberal lending policy.

- SCBNL has existing branches that are not sufficient of cover the banking business. Coverage of limited areas by the bank will not boost up its campaign of deposit mobilization and credit disbursement as desired. Nepal Rastra Bank and Government of Nepal have also encouraged the joint venture banks to expand the banking service in rural areas and communities Therefore, SCBNL is recommended to open new branches at certain places every year.

- One of the main objectives to operate joint venture banks i.e. especially SCBNL is to boost foreign investment. SCBNL is recommended to continuing activate towards increasing foreign investment in Nepal by means of their wide international banking network.

- As a joint venture bank in private sector, SCBNL cannot keep its eyes off from the profit motive. It should be always careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its customers. SCBNL's profitability position is very strong than that of NIBL. SCBNL is strongly recommended to utilize its risky assets and shareholders fund to gain highest profit margin and maintain sound stable lending policy. Similarly, it should reduce its expenses and loan loss which is more in compare to NIBL and should continuing try to collect cheaper fund being more profitable.

- SCBNL is suggested to implement a sound collection policy which should ensure rapid identification of fake loans, immediate contact with borrower and frequent follow up until a loan is recovered. The recovery of loss is most challenging aspects to a bank. Therefore, the bank must be very careful in formulating credit collection policy which should be associated with some legal procedure.

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