

CHAPTER – I

INTRODUCTION

1.1 General Background of the Study

In general sense, investment means to pay out money to get more. But in its broad sense investment means the sacrifice of the current money for future money. Time and risk, which are the two different attributes generally involved in investment. It is certain that the sacrifice is done today and the return comes later, if at all, and the magnitude is generally uncertain. In some cases element of time predominates (for example, government bond). In other cases risk is the major attribute (for example, call option and the common stock). In yet others, both time and risk are important (for example, share and common stock).

Investment is the use of money to earn profit. The term also refers to the expenditure of funds for capital goods such as factories, farm equipment, livestock and machinery. Capital goods are used to produce other goods or services. Therefore, we can say investment is concerned with the management of the investor wealth, which are the current income, and the present value of all future income. Fund can be arranged from saving and borrowed money. By foregoing today and investing the saving, investors expect to enhance their future consumption possibilities i.e. they are invested to increase wealth. Investor also seeks to manage their wealth effectively by obtaining the most from it, while protecting it from inflation, taxes and factors.

The three concepts of Investment can be defined as follows:

- Economic investment, which is an Economist's definition of Investment.
- Investment defined in a more general and the extended form, that is used by the man of street
- The other sense in which we are very much interested namely financial Investment

A Distinction is often made between investments and saving as without saving the investment is not possible. Saving is defined as the forgone consumption, whereas the investment is restricted to real investment that increases the national output in the future.

Real investment is generally involved with the some kind of tangible assets such as land, building and factories. Financial Investment involves contract written on piece of paper, such as common stock, bonds. Modern economy has the most investment of financial variety.

1.2 Statement of the Problem

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

Because of the lack of supervision in the investment process, the productivity of the commercial banks investment is very low. There is lack of sound investment policy. There are number of commercial banks, which have increased the tough competition for each other. Due to this tough competition, they issue loan in a hurry under client's insufficient deposits and securities.

This will lead the bank to lose their principle amount, together with interest and finally they are forced for the liquidation process.

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

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

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

1.3 Objective of the Study

The basic objective of this study is to analyze the investment pattern adopted by NABIL Bank Limited and Standard Chartered Bank Nepal Limited. The specific objective of the study is as follows.

- To evaluate the liquidity management, assets management efficiency, profitability position and investment practices of NABIL Bank Limited and Standard Chartered Bank Nepal Limited.

- To find out the relationship between deposits and total investment, deposits and loan advance, net profit and investment.
- To provide packages of workable suggestions and the recommendations on the basis of findings.

1.4 Focus of the Study

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

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

The study is mainly focus on the investment policy of joint venture commercial banks in Nepal with the special reference to the NABIL Bank Limited and Standard Chartered Bank Nepal Limited. The study is focused to analyze the investment policy of the joint ventures bank with the help of financial and statistical analysis. Further study focused on evaluating the deposits, utilization

of the bank in terms of loans and advances and investment and its impact in the profitability of the bank and the contribution of off balance sheet activities in the earning of the bank. The study mainly focuses on the investment analysis of the commercial banks.

1.5 Significance of the Study

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

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

1.6 Limitation of the Study

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

1. The study is based on the secondary data.

2. The study is based on the data of the few years of the two listed commercial banks only.
3. The factors related to investment policy are only taken into consideration, whereas the other numerous factors are ignored.
4. The study focuses on the investment aspects of the banking performances only.
5. The study is going to be done within the limited time.
6. The study deals with the limited financial and statistical tools only.

1.7 Organization of the Study

The study has been divided into five chapters that is introduction, review of literature, research methodology, analysis and interpretation and summary, conclusion and recommendation.

The first chapter defines introduction of commercial bank as well as the introduction of NABIL Bank Limited and Standard Chartered Bank Nepal limited, background of the study, statement of the problem, objective and advantages of the study, organized of the study profile of the concerned banks and the limitation of the study are arranged.

Second chapter review of literature includes discussion on the conceptual framework on investment and fund mobilization. It also reviews the major relevant studies with fund mobilization of commercial joint venture banks.

Third chapter research methodology use to evaluate investment policies of Joint Venture Banks in Nepal. It consists of research design, sources of data, population and sample, tools and method of analysis.

Fourth Chapter presentation and analysis of data includes an analysis of data through a definite course of research methodology. It analyses different

financial ratios and statistical analysis related to investment and fund mobilization of two sample banks.

Last chapter discusses summary of the study and suggestions as well as recommendations. Besides these, bibliography and appendices are also included.

CHAPTER - II

REVIEW OF LITERATURE

The past on historical know ledge parody the base: therefore the literature is based on the previous knowledge. The effort has been to cover as much literature, articles, thesis and research paper as possible to make the study in informative & broad. This chapter has been divided into two main sections: The four sector of the chapter implores with the can capital frame work of study. Second sectored implores the review of previous studies.

2.1 Conceptual Framework

2.1.1 Investment

Investment can be defined as sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future but return is uncertain too. Uncertainty is measured by risk that why there is always involvement of risk in investment.

Investment usually involves putting money into abet, which is not necessarily marketable in order to enjoy a series of return the investment is expected to yield. On the other tend speculation is usually a shorter than phenomena. Speculators tend to buy assets with expecting of a profit that can be earned from subsequent price change & sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future. Investment is made in assets. Assets in all are of two types' real assets (land, building, factures etc.) and financial assets. These two investments are not competitive but complementary. Highly developed institutions for financial greatly facilitate real investment (Bhattarai, 2005).

Investment is nothing but deploying our saving in manner that ensures safety of our money & provides a sustained return to supplement our regular income. The term investment covers a possible where there are a devour saving. If all

the income & saving are consumed to solve the problems of hand to month and to other basis needs then there is non existence of in investment are interrelated.

2.1.2 Sound Lending and Investment Policy Features

The commercial banks are inspired with the goal of earning profit. There are many reasons after the goals of gaining profit. In order to reach their desired goals, they must invest profit to the resources. It is not better to keep the available resources idle. The bank should be able to clear the policy of its investment by making a deep study on the subjects that which sector would be the trust worthier & dependable to invest the funds collected in the bank, they should have the ability to use the policy of banking investment in its goal. The income and profit of the bank depends upon its investment policy & term Landry procedure of its funds in different securities. The greater the credit created by the bank the Higher will be the profitability. A sound bending & investment policy is not only prerequisite for the bank's profitability but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Therefore, the following principles or features of investment policy must be abided by the commercial banks in order to achieve the goals.

In pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing of the money in the hands of others for their use, in return for proper instruments entitling the holders to fixed income payments or the participation in expected profits. But for manufacturing and trading firms, the term investment will be those long-term expenditures that aim at increasing plant, capacity of efficiency or at building up goodwill, thereby producing an increased return over a period. Whereas an economist view, investment as a productive process by means of which additions are made to capital equipment (Charles, 1988).

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

Safety and Security

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

Profitability

Profit of Commercial Bank depends upon the interest rates, volume of loan, its time period and nature of investment in different securities. It is a fact that maximizes the volume of wealth through the maximization of the return on their investment and lending. So banks must invest funds where they gain maximum profit. Ambition of profit to commercial bank seem reasonable as bank has to cover all the expenses and make payment in the form of dividend to the shareholder who contribute to build up the bank's capital and interest to

the depositors. For this the bank calculates the cost of funds and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligation, it will go ahead of investment. A good bank is one who invests most of its funds in different earning assets standing safety from the problem of liquidity i.e., keeping cash reserve to meet day-to-day requirement of the depositors. We know very well that liquidity is maintained at the cost of profitability and vice versa. For a bank, liquidity and profitability are likely two wheels of carts. In the absence of any one of them, the bank cannot forge ahead. A bank is set up to maximize profitability. The profit is excess of incomes over expenses. Banks have to meet following obligation.

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

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

Liquidity

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

always be ready to meet current or short-term obligation when they become due for repayment. Liquidity is important for motives cited as under:

1. Transaction Motive

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

2. Speculative Motive

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

3. Precautionary Motive

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

Banks maintain liquidity in the form of:

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

Purpose of Loan

This is very important question for any banker is that, why a customer is in need for loan. If borrower misused the loan granted by the bank, he can never repay. Therefore, in order to avoid This situation each and every bank should demand all the essential detailed information about the scheme of the project or activities would be examined before lending.

Marketability

The investments of the bank should be such as can be easily sold and realized in cash readily. Loans given against commercial paper representing goods in transit or against stocks and shares of well-known companies are easily realizable while loans given against immovable property cannot be easily

realized. The bank must make sure that the securities, in which he invests his funds, are easily saleable without appreciable loss.

Tangibility

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

Legality

A commercial bank must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of law and other while mobilizing its funds. Legal secretes will bring out any problems to investors (Bhalla, 1983).

Types of Investment

A particular investor normally determines the investment types after having formulated the investment decision, which is termed as capital budgeting in financial lexicon. With the proliferation of financial markets there are more options for investment types. According to the financial terminology investment means the following:

- Purchasing Securities in Money or Capital Markets
- Buying Monetary or Paper Financial Assets in Money or Capital Markets
- Investing in Liquid Assets like Gold, Real Estate and Collectibles

Investors assume that these forms of investment would furnish them with some revenue by way of positive cash flow. These assets can also affect the particular investor positively or negatively depending on the alterations in their respective values (*Questa; 1999: 13*).

A) Share Market Investment

Shares are purchased and sold on the primary and secondary share markets. To invest in the share market, investors acquire a call option, which is the right to buy a share, or a put option, which is the right to sell a share. In general, investors buy put options if they expect prices to rise, and call options if they expect prices to fall. For currency rate exchanges, investors may buy a swap option.

The value of a derivative depends on the value of the underlying asset. The various classifications of derivatives relevant to share market investment are:

- Swap
- Futures Contract
- Forward Contract
- Option Contract

Before a share is chosen for investment, a technical analysis of the share is performed. The price and volume of a share over a period of time are tracked and then a business plan is constructed. A fundamental analysis involves a close study of the company associated with the share, and its performance over time. The fundamental analysis is important for the share market investor.

B) Land Investment

Land as investment is a long-term investment and as the price of land all over the world has taken an upswing, this form of investment can be termed as a safe bet. Big development companies, wealthy individuals and well-off farmers have involved themselves in land investment. However, a system for efficient development of land must be in place. With the increase in land prices, investment in land can be very lucrative as capital gains are easily realized. Besides, land is a tangible asset and the investors can use it in their best interests.

Land investment forms a major part of real estate investment. The attachments to lands and buildings are not an essential requirement of land investment and it is the main point of difference between land investment and real estate investment. Land can be termed as the most basic form of asset. The land developer is entrusted with the duty of developing the land. Land appreciates in value with establishment of buildings and other proper amenities on it (*Pattillo; 1998: 530-531*).

C) Capital Investment

Capital investment is defined as the expenditure that may be incurred by a business organization in order to purchase machineries and other fixed assets. This expenditure is normally beneficial as it lays the foundation for future investments of similar kind. Capital spending is normally performed for categories that are expected to last for more than a single year. The value of the assets being bought with capital spending is supposed to be important as far as the preparation of the cash flow statement is concerned.

As per the capital investment plans, the companies spend primarily on buying new plants or equipments that may be related to their field of work. Nowadays, the number of investors willing to operate for the medium of capital investment is on the rise. The phenomenon of working capital is relevant in the context of capital investment as well as determining a company's operational status. The efficacy of operations of a company is normally inversely proportional to the building up of working capital. Methods like Net Present Value and Internal Rate of Return are employed when the proposals for venture capital investments are judged (*Hull; 2002: 35-36*).

D) Financial Market Investment

When investing in the financial market, traders are provided with the opportunity to deal in financial securities, commodities and other freely interchangeable goods at affordable rates of transaction. The prices of these are

reflective of effective market speculation. It has been observed that there has been noticeable evolution and an increase in the various financial markets. These markets are making the best of efforts to enhance the factor of liquidity. The different financial markets that are available at the present time are:

- Real Estate Market
- Bond Market
- Commodities Market
- Stock or Equities Market
- Spot or Cash Market
- Forex Market
- Over-the-counter Market
- Derivatives Market (*Gould; 1968: 50*)

There is an existence of general, as well as specialized financial markets in today's world. General markets are where a diverse group of commodities are traded, whereas specialized ones are those, which specialize in dealing with only one kind of commodity or good.

The financial markets of today bring buyers with different interests onto the same platform. This process enables them to locate prospective customers and enhances the efficiency of the market operations as a whole.

E) Stock Investment

The process of stock investment enables the stock traders or investors to trade in securities. Investors can operate individually or under the guidance of investment management companies. The system of stock investment is not devoid of prices and the process involves a considerable amount of risk and uncertainty. The ones who are most likely to be affected by the harsh nature of the stock investment are the new investors and those who are not wise in their decision making process (*Hull; 2002: 41*).

It could be assumed safely that stock market investment is definitely not the right option if an investor is interested in making quick money. While investing in the stock market it is usual for the investors and the traders to be confronted with expenses like the following:

- Commissions
- Fees to be Paid for Brokerage and other Services
- Taxes

F) Retirement Investment

Retirement investment planning ensures financial security in the post retirement period. The resulting retirement benefits prove to be of great use for retirees. A considerable amount of money should be invested in retirement investment plans. Money must not be withdrawn indiscriminately from retirement accounts. An individual's various retirement investments must be monitored regularly. Both social security and investment in stocks may contribute to an individual's retirement.

The first step to success in retirement investing is to develop the habit of saving early in life. Next, a sound investment strategy is necessary, one which allows for an amount of risk but also enhances the average annual returns on investment. Investment in short-term government bonds and government treasury bills are two examples of areas for retirement investment (*Questa; 1999: 28*).

G) Real Estate Investment

Real estate can broadly be defined as immovable property. Land and things attached to it in permanence, such as buildings, come under the category of real estate. Investment in real estate has its fair share of risks. But one advantage of real estate is that it gives the owner the right to transfer the title to the land.

Real estate investors often own more than one unit of real estate. The investor uses one unit as his or her residence and accrues rental income from the others. Investment in real estate also involves value appreciation of property over time, which leads to capital gains. The whole program of real estate investment is a long-term process (*Pattillo; 1998: 535*).

H) Gold Investment

Gold investment is a long-term investment scheme involving low risks. People willing to invest in gold have a natural advantage because the demand for gold is much more than its actual supply. The price of gold is generally in a continual rise. However, investors should not invest all their funds in one kind of gold investment. The gold industry is huge and has many facets, and a savvy investor can exploit this. Money can be invested directly in gold mines, for example, which can be more lucrative than investing in physical gold (*Lucas; 1967: 81*).

Gold investors prefer to buy gold in its cheapest forms such as krugerrands, sovereigns and bars. Gold bars are the cheapest while gold sovereigns, because of their smaller size, are worth paying an extra premium for.

I) Portfolio Investment

Portfolio investment refers to the passive holdings of the financial securities such as foreign stocks, foreign bonds and other foreign financial assets, which are not under the control of the investors.

Unlike foreign direct investment, the issuers of securities do not control the portfolio investment. The foreign direct investment involves the investors to make investment to acquire the lasting interest in the enterprises that are operational outside the domestic economy. A typical foreign direct investment relationship allows the parent enterprise and a foreign affiliate to form together a transnational corporation.

The portfolio investments are primarily connected with the portfolio diversification process and the examples of portfolio investment are:

- Purchasing of shares in a foreign company
- Purchasing of bonds that is issued by a foreign government
- Acquisition of the assets in a foreign country (*Cox & Ross; 1976: 148*).

The developing countries use the portfolio investment as a growing tool in the economy and take some measures to encourage the use of portfolio investment. While going for liberalization and economic reforms in order to bring about the substantial and rapid economic growth, the government takes up some policies and instruments. The portfolio investment is one of the most famous financial instruments that are taken up by government to enhance the economic growth. The foreign direct investments are also encouraged by the developing countries while going for the economic reforms (*Lucas; 1967: 84*).

J) Business Investment

Business investment can give investors a chance to invest in different kinds of businesses. Business investment can be a good option for the investors to manage their own portfolios.

A number of business investment opportunities exist. Investors may choose from different business investment plans depending on the market conditions and trends. Business investment typically means purchasing an asset in the form of stocks or bonds with a hope of getting returns and interest in the future. Companies also release their shares and bonds in the capital market in order to collect money for some financial purpose. The assets that are purchased may be physical, intangible, or financial depending on the nature of the asset (*Jarrow & Turnbull; 1999: 102-103*).

Business finance, on the other hand, refers to the business finance loan, which is one of the easiest ways to acquire funds for a company. Considering the cutthroat competition of the business world, having financial support seems to be crucial. Finance is the most important aspect for an entrepreneur both in order to start a new business and to expanding an existing business.

K) Equity Investment

Equity investment refers to the trading of stocks and bonds in the share market. It is also referred to as the acquisition of equity or ownership participation in the company.

An equity investment is typically an ownership investment, where the investor owns an asset of the company. In this kind of investment there is always a risk of the investor not earning a specific amount of money. Equity investment can also be termed as payment to a firm in return for partial ownership of that firm. An equity investor, in some cases, may assume some management control of the firm and may also share in future profits (*Eisner & Strotz; 1963: 35-36*).

In order to understand equity investment properly, it is necessary to see the technical and fundamental analysis. The technical analysis of equity investment is primarily the study of price history of the shares and stock market. A fundamental analysis of equity investment involves the study of all available information that is relevant to the share market in order to predict the future trends of the stock market. The annual reports, industry data and study of the economic and financial environment are also included in the fundamental information of equity investment.

2.2 Some Important Terms

The various sections in this study comprise some important banking terms. The efforts have been made to clarify the meaning, which are frequently used in this study are given below.

Deposits

It means the amounts deposited in different accounts such as fixed account, current account and saving account of a bank or any financial institution.

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

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

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

- Current account
- Fixed account
- Saving account

Loan and Advances

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

Investment on Government Securities, Shares and Debentures

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

- It may want to space its maturities so that the inflow of cash coincide with expected withdrawals by depositors or large loans demand of the customers.
- It may wish to have high grade marketable securities to liquidate, if its primary source of reserves becomes inadequate.

- It may also be forced to invest because the demand for loan has decreased or it is not sufficient to absorb its excess reserve. However, investment portfolio of Commercial bank is established and maintained with a view to the nature banks liability. This is because depositors may demand funds in great volume without previous notice to the banks. The investment must be a type that can be marketed quickly with little or no shrinkage in value.

Investment on other companies share and debentures

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

Off-balance Sheet Activities

Off-balance sheet activities involve contracts for future purchase sale of assets and all these activities are contingent obligations. These are not recognized, as assets are liabilities on balance sheet. Some good examples of these items are letter of credit (L/C), letter of guarantee, bills of collection etc. Now days, some economist and finance specialists to expand the modern, transaction of a bank stressfully Highlight sub activities (Feorge, 1996).

2.3 Review of NRB Directives

Nepal Rastra Bank is the central monitoring body of the financial institutions of Nepal. For the smooth and effective operations of FI, the bank provides circulars in regular time interval. The circular related to the investment are as follows;

a) Provision for Investment in Deprived Sector

Commercial banks are compulsorily required to extend their credit and investment in the deprived sector such as co-operative institutions and the rural banks that are licensed through NRB. The new provision obligates the commercial banks to invest 4.0 % of the total loan and advances to the deprived sector.

b) Provision for Investment in Productive Sector

Nepal, being a developing country 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 credit to the productive sectors like agriculture sector and industrial sectors.

c) Investment in Stocks and Securities

Commercial banks are also required to minimize exposures to risk involved in investing the deposits of the saver and other financial resources at their disposal in earning assets. Commercial banks are required to compile and submit their financial reports keeping in view:

- Nepal Rasta Bank Act
- Commercial Bank Act
- International Accounting System
- Nature and type of their respective transaction
- Directives of the Nepal Rastra Bank
- Monetary and Financial Statistics Manual of IMF

d) Investment Management Regulation

A commercial bank formulating a written policy may decide to invest in shares and securities of an organized institution. However, such investment is restricted to 10% of paid up capital of the organization. However, the cumulative amount of such investment in all the companies in which the bank has financial interest shall be limited to 20% of the paid up capital of the bank.

But the total amount of investment in share and securities of the organized institution is restricted to 30% of the paid up capital of the bank.

Likewise, Commercial Banks are not allowed to invest in any shares, securities, and hybrid investment issued by any banks and financial institutions licensed by NRB. Where such investment exists prior to issuances of this directive, such investment brought within the restrictive limitation by the FY 2003/04.

However, investments on rural microfinance development banks' share are free from such restriction. (NRB Directives, 2013)

2.4 Review of Unpublished dissertation

On the topic Investment Policy has published by many researchers in their research article. The mentioned theses were reviewed as they are relevant to the present research.

Shrestha, (2007) conducted a study on *“A Comparative Analysis on Investment performance of commercial banks in Nepal”* with the following objectives:

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

The study was conducted on the basis of secondary data. The research findings of the study were as follows:

The liquidity position of NIBL was Stronger than NABIL and HBL. At the same time, liquidity position of NIBL was highly fluctuating, which showed that NIBL bore higher risk than other two banks. NIBL had the least investment in Government Securities, which considered the least risky asset. From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding asset management and deposit mobilization. NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor. In the profitability analysis, none of the three banks profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position. From the risk point of view, NABIL and NIBL were facing higher risk than HBL, but the risk level of all three banks seemed almost the same. From the analysis of growth ratios, NIBL's collection of deposit, granting of loans and advances and net profit were better but in terms of investment, HBL is better. The coefficient of correlation analysis between different variables of NABIL, NIBL and HBL revealed that NABIL was weaker regarding mobilization of deposits as loans and advances and NIBL was performing extremely well regarding earning profits from outside assets. From the trend analysis study, it was found that all banks were mobilizing their total deposits into loans and advances in increasing trend which was the indication of efficient mobilization.

Maharjan R. (2007), "*Investment Policy Analysis of Joint Venture Banks in Nepal*" a comparative study of HBL bank with Nepal SBI bank and Nepal Bangladesh Bank. The objectives of the study were;

- To examine the current profitability trend of the selected banks.
- To evaluate the investment policy of the banks.
- To analyse the impact of investment policy on the performance of the sample banks.

The major findings were;

- HBL is one of the successful commercial banks of Nepal whereas Nepal SBI and Nepal Bangladesh are in increasing developing period.
- HBL has made a great achievement within last 10 years period and also said that only joint venture commercial banks are running in profit. And HBL is one of the successful commercial banks of Nepal. Nepal SBI is still in developing period. Nepal Bangladesh is also increasing its developing period. HBL has made a great achievement within last 10 years period. It has also invested in different sectors. These commercial banks should take favorable step for the development of rural parts of the country.

Joshi J. (2008), *“Investment Policy of Commercial Bank of Nepal” a comparative study of EBL with NABIL Bank and BOK*”. The objectives of the study were;

- To find out the capital position and their profit trend for the upcoming years.
- To analyze the investment policy of the sample banks.
- To evaluate the deposit position and loan and advances and different types of loans.

The major findings were;

- EBL has higher idle cash and bank balance. It may decrease profit of bank. EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.
- Before mobilizing funds, EBL is recommended to collect a large variety of deposit through schemes like cumulative deposit scheme, price bonds scheme, gift cheque scheme, house building deposit scheme, recurring deposit scheme, deposited linked life insurance scheme, monthly interest scheme, direct finance housing scheme, education loan and scheme, vehicle loan scheme, and many others.

- It is good to invest more on share & debentures as it encourage financial and economic development of the country. A commercial bank must mobilize its fund in different sector such as to purchase share & debentures of other financial and non financial companies out of total working fund. EBL has invested its more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture in very nominal.
- Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said “all eggs should not be kept in the same basket”.
- EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor’s fund. So it is 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 depositor’s.
- The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle. Rather, before taking any of the risk as stated above, EBL should carefully study it so as to achieve higher returns from the above risk.

Ojha L.P. (2009), “*Lending Practices: A study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd.*” with the objectives of;

- To determine the liquidity position, the impact of deposit in liquidity and its effect on; lending practices.
- To measure the bank’s lending strength.
- To analyze the portfolio behaviour of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.

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

The research findings of the study are:

- The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current asset.
- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- The loan and advances and investment to deposit ratio has shown that NABIL Bank Ltd. has developed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.
- The lending in commercial purpose is highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47% of its total credit in general use and social purpose.

Thapa D. (2011), *“Investment Policy of Nepal Bangladesh Bank Limited and Other Joint Venture Banks”*. The main objectives were as follows;

- To analyze the relationship between loan and advance and total investment with other financial variable of NB bank and compare them with NABIL and NGBL.
- To evaluate the liquidity, asset management efficiency, profitability and risk position of NB bank in comparison to NABIL and NGBL.
- To study the various risks in investment of NB bank in comparison to NABIL and NGBL.

The major findings were as follows;

- NB Bank has good deposit collections, it has better liquidity position, it has made enough loan and advances but has made the negligible amount of investment in government securities.
- The credit risk ratio, interest risk ratio, capital risk ratio, and profitability position of NB bank is comparatively worse than that of NABIL and NGBL.
- Also there is significant relationship between deposit and loan and advances, outside assets and net profit of NB bank. But there is no significant relationship between deposit and Investment of NB bank and the position of NB bank in regard to utilization of fund to earn profit is not better in comparison to NABIL and NGBL.

Khatriwada M. (2011), “*Investment Analysis of Commercial Banks in Nepal*”

a comparative study of NEB, NSBIBL, BOK, HBL & NIBL. The major objectives were;

- To analyze the investment policy of sample banks.
- To examine the investment trend of sample banks.
- To analyze investment sector of sample banks.
- To examine the effect of investment policy on performance.

The major findings of the study were;

- Mean ratio of HBL investment to total commercial banks investment is 10.64% which is extremely higher than other banks. The portion of HBL investment is increasing every year. The ratios of NSBIBL and BOK is 3.61% which is less than other banks.
- NSBIBL had invested most of its fund in government securities than other banks. Likewise, EBL, BOK, HBL, and NIBL had started to invest in other sector from FY 2062. All these banks have invested fewer funds in share and capital of other companies. The commercial banks mostly

invests on government securities, NRB bond and share and debentures of other company.

- The mean ratio of Investment of Total deposit of HBL is 31.60% which is higher than other banks. Likewise NIBL, BOKL, EBL and NSBIL. Loan and advances is also another type of Investment of Commercial bank. The mean ratio of Investment plus loan and advances to deposit ratio of NSBIBL is 107.63% which is higher than other banks, HBL has less than other banks. It shows that the bank uses most of its fund from deposit on Investment and loan and advances. The mean ratio of total investment to total assets ratio of HBL is 26.88% which is greater than other banks. Similarly EBL has fewer ratios than other banks. The mean ratio of investment on government securities to total assets ratio of NSBIBL is 20.80% which is higher than other banks and NIBL has 11.44% which is less ratio than other banks. The mean ratio of investment on share and debenture to total asset ratio of BOKL is 2.31% which is higher than other banks. BOKL has use its more fund on share and debenture of other companies than other banks. EBL has 0.11% which is less ratio of investment on share and debenture of other companies than other banks. It means EBL less invest its fund on share and debenture.

2.5 Research Gap

All of the previous studies made are concerned with comparing the total investment with the total flow of loan and advances, and do not enlightens on each component of the investment. This research is comparatively different from other researches, which I followed while preparing it. The other researches of investment policy are mainly based on comparison of three or more banks. Therefore two commercial banks have taken as sample bank for research, which makes this research different with others. Tracing this defect, the present study is conducted to analyze the investment priority given by the banks in each component of the investment, such as treasury bond, development bonds, corporate securities and debentures, interbank lending and so on.

CHAPTER - III

RESEARCH METHODOLOGY

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

3.1 Research Design

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of data. Research Design means an overall framework or plan for the collection and analysis of data (Wolf and Pant, 2003).

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

A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Descriptive and analytical research design has been used in this study. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate investment policy of two commercial banks in Nepal.

3.2 Population and Sample

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

of the data and the banks that are selected under study (that) constitute the sample for the study. So from the population of various commercial banks operating in Nepal two banks taken as sample are-

1. NABIL Bank Limited
2. Standard Chartered Bank Nepal Limited.

3.3 Sources of Data

Data are collected mainly from secondary source. The secondary data are used to analyze the facts and figures. The secondary data are those that have been published someone previously. The annual reports of the concerned banks are the major secondary sources of data.

3.4 Data Analysis Tools

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

3.4.1 Financial Tools

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

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

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

3.4.1.1 Liquidity Ratios

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

Current Ratio

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

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

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

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

Cash and Bank Balance to Total Deposit Ratio

The formula applied here is,

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

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

Cash and Bank Balance to Current Asset Ratio

The formula applied is,

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

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

Investment on Government Securities to Current Assets

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

Investment on Government Securities to Current Assets

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

Loans and Advances to Current Assets Ratio

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

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

3.4.1.2 Assets Management Ratio / Activity Ratio

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

relating to assets and liability management, which are used to determine the efficiency of the subjected bank in managing its assets.

Loan and advances to total deposit

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

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

Total Investment to Total Deposit Ratio

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

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

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

Loans and Advances to Working Fund Ratio

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

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

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

Investment on Government Securities to Total Working Fund Ratio

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

Investment on Government Securities to Total Working Fund

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

Investment on Shares and Debentures to Total Working Fund Ratio

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

Investment on Share and Debentures to Total Working Fund

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

3.4.1.3 Profitability Ratio

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

Return on Total Working Fund Ratio

$$\frac{\text{Net Profit}}{\text{Total Working Fund}}$$

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

Total Interest Earned to Total Working Fund

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

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

3.4.1.4 Risk Ratio

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

Credit Risk Ratio

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

This is stated as,

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

Liquidity Risk Ratio

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

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

3.4.2 Statistical Tools / Statistical Analysis

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

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

Arithmetic Mean (Average)

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

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

Where,

\bar{X} = Arithmetic mean

n = Number of observations

$\sum X$ = Sum of observations

Standard Deviation

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

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

Where,

σ = Standard deviation of X

N = No. of observant ions.

Coefficient of Variation (C.V.)

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

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

Where,

C.V = Coefficient of Variance

σ = Sigma

\bar{X} = Arithmetic Mean

Probable Error (P.E.)

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

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

Where,

r = the value of correlation coefficient

n= number of pairs of observations.

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

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

Coefficient of Correlation Analysis

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

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

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

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

Where,

n = no. of observation

$\sum X$ = sum of X variable

$\sum Y$ = sum of Y variable

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Financial Ratios

The main aspect of financial ratios is to study, evaluate and analysis of those major financial performance which are very much related to the investment management and also with the fund mobilization of NABIL Bank Limited and Standard Chartered Bank Nepal Limited. The ratios that are related to the investment aspects and fund mobilizations are only studied in this chapter. Other various financial ratios are not taken into consideration. All the ratios are calculated using secondary data.

4.1.1 Liquidity Ratios

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

4.1.1.1 Current Ratio

Current ratio shows the relation between current assets and current liabilities. Current ratio indicates the ability of the bank to meet its current obligation. Current ratio is calculated by dividing current assets by current liabilities. The standard current ratio is 2:1. The current ratio, mean, standard deviation and coefficient variation of the three sample joint ventures are given in the following table 4.1.

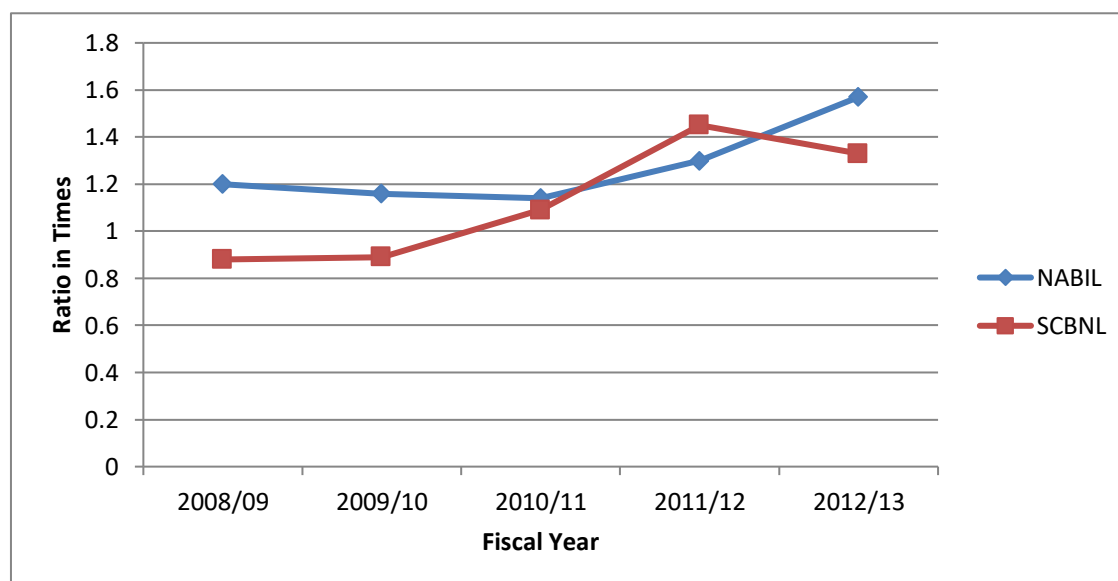
Table 4.1
Current Ratio

(Ratio in Times)

Year	NABIL	SCBNL
2008/09	1.20	0.88
2009/10	1.16	0.89
2010/11	1.14	1.09
2011/12	1.30	1.45
2012/13	1.57	1.33
Mean	1.27	1.13
S.D.	0.18	0.26
C.V.	13.97	22.71

Source: Appendix I

Figure 4.1
Current Ratio



The above table shows the current ratio of NABIL and SCBNL during the fiscal year 2008/09 to 2012/12. From the table it is clear that the current ratio of NABIL is in fluctuating. The ratio of NABIL is in decreasing from 1.20times in fiscal year 2008/09 to 1.14 times in fiscal year 2010/11 and then increased to 1.57 times in fiscal year 2012/13. Similarly, the ratio SCBNL is in increasing trend from except in fiscal year 2012/13. The current ratio is ranged from 0.88times in fiscal year 2008/09 to 1.45times in fiscal year 2011/12.

Looking at the average liquidity of two banks NABIL (1.27times) is greater than that of SCBNL (1.13times). Thus, the liquidity position of NABIL is sound than SCBNL. Similarly the CV of NABIL is less than the SCBNL. It can be said that current ratio of NABIL is more consistent that SCBNL.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance is said to be the first line of defense of every cash transaction. The ratio between the cash and bank balance and total deposit measures the ability of the bank to meet the unanticipated cash and all types of deposits. Higher the ratio, the greater will be the ability, to meet sudden demand of deposit. However, every high ratio is not desirable since bank has to pay interest on deposit. This will also maximize the cost of fund to the bank. The cash and bank balance to total deposit ratio, mean, standard deviation and coefficient variation of the three sample joint ventures are given in the following table 4.2.

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

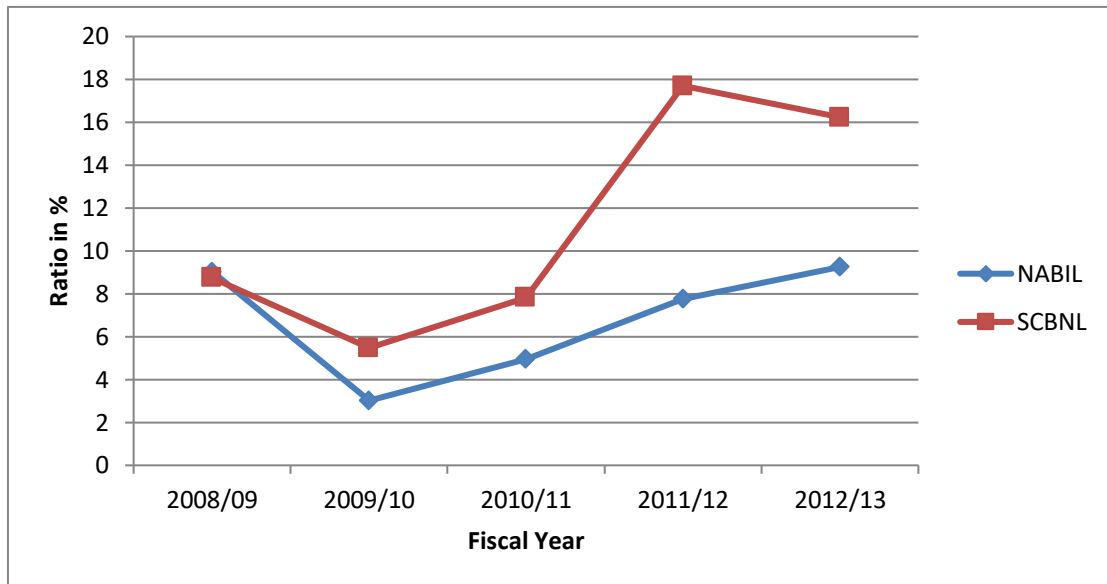
(Ratio in %)

Year	NABIL	SCBNL
2008/09	9.03	8.75
2009/10	3.02	5.48
2010/11	4.95	7.83
2011/12	7.77	17.70
2012/13	9.25	16.23
Mean	6.80	11.20
S.D.	2.72	5.42
C.V.	40.03	48.42

Source: Appendix I

Figure 4.2

Cash and Bank Balance to Total Deposit Ratio



The above table shows the cash and bank balance to total deposit of NABIL and SCBNL during the study period. The cash and bank balance to total deposit ratios of NABIL is in increasing trend under the study period except in fiscal year 2008/09. The ratio is ranged from 3.02% in fiscal year 2009/10 to 9.25% in fiscal year 2012/13. Similarly, the cash and bank balance to total deposit ratio of SCBNL is in fluctuating trends and ranged from 5.48% in fiscal year 2009/10 to 17.70% in fiscal year 2011/12.

In average, SCBNL (11.20%) has maintained the higher cash and bank balance to total deposit ratio than NABIL (9.25%). It shows that the cash and bank balance in liquidity position of SCBNL is higher than NABIL. It states that the cash and bank balance in liquidity position of NABIL is lower than SCBNL. It shows that there could be some difficulties to meet the demand of its customers to pay their deposit on at any time. However; it may earn more due from invested cash to different sectors. SCBNL has high ratio which indicates that the bank has high ability to pay for depositors and to invest in different sectors. However, the high ratios also shows very inefficiency as all deposits amounts mostly to invest other sectors due to investing opportunity occurs and gain

more. Likewise, short term marketable securities, treasury bills, etc. are ensuring enough liquidity, which will help the bank to improve its profitability.

4.1.1.3 Cash and Bank Balance to Current Assets Ratio

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

Table 4.3
Cash and Bank Balance to Current Assets Ratio

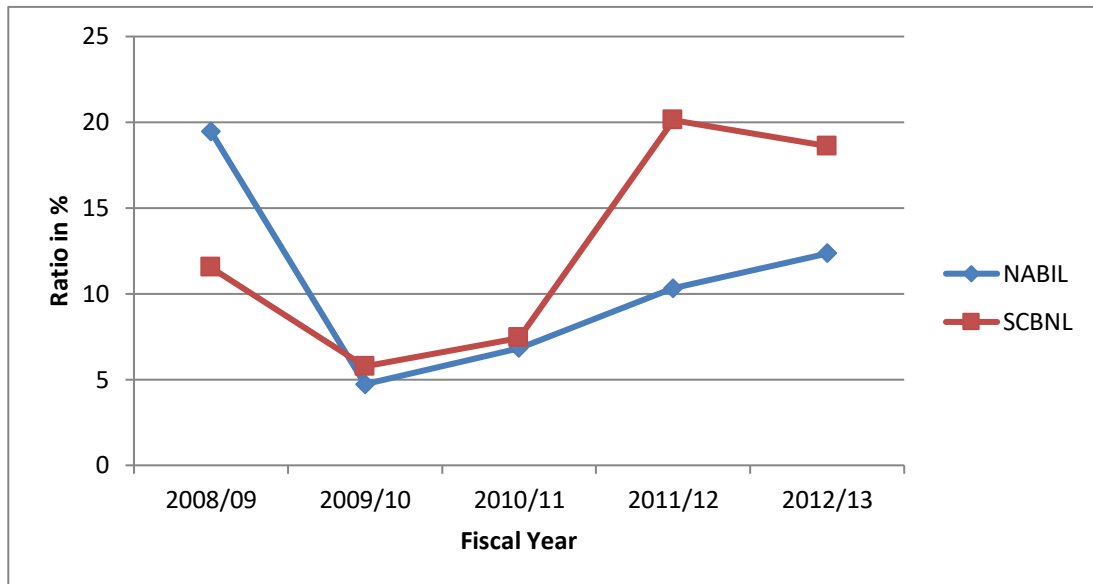
(Ratio in %)

Year	NABIL	SCBNL
2008/09	19.45	11.53
2009/10	4.73	5.77
2010/11	6.83	7.42
2011/12	10.33	20.12
2012/13	12.36	18.61
Mean	10.74	12.69
S.D.	5.70	6.47
C.V.	53.08	50.96

Source: Appendix I

Figure 4.3

Cash and Bank Balance to Current Assets Ratio



The above table and figure shows the cash and bank balance to current assets ratio of NABIL and SCBNL. Table 4.3 shows that the banks ratios are maintained in fluctuating trend. The mean ratio of SCBNL (12.69%) is the higher than NABIL (10.74%). However, CV of SCBNL < NABIL thus, SCBNL is more consistent than NABIL. Thus, it can be concluded that SCBNL is highly capable for maintaining cash and bank balance in comparison to NABIL.

4.1.1.4 Investment on Government Securities Ratios to Current Assets Ratio

The objective of this ratio is to examine the portion of a commercial bank's current assets which is invested on various government securities issued by the government. More or less each commercial bank is interested to invest their collected fund on different government securities in different times to utilize their excess funds for other purpose. Though, the government securities are not so much of liquid assets as cash and bank balance, they can be easily sold in the market or they can be converted into cash in other ways. This ratio shows

out of total current assets, how much percentage of it has been occupied by the investment on government securities.

Table 4.4

Investment on Government Securities to Current Assets Ratio

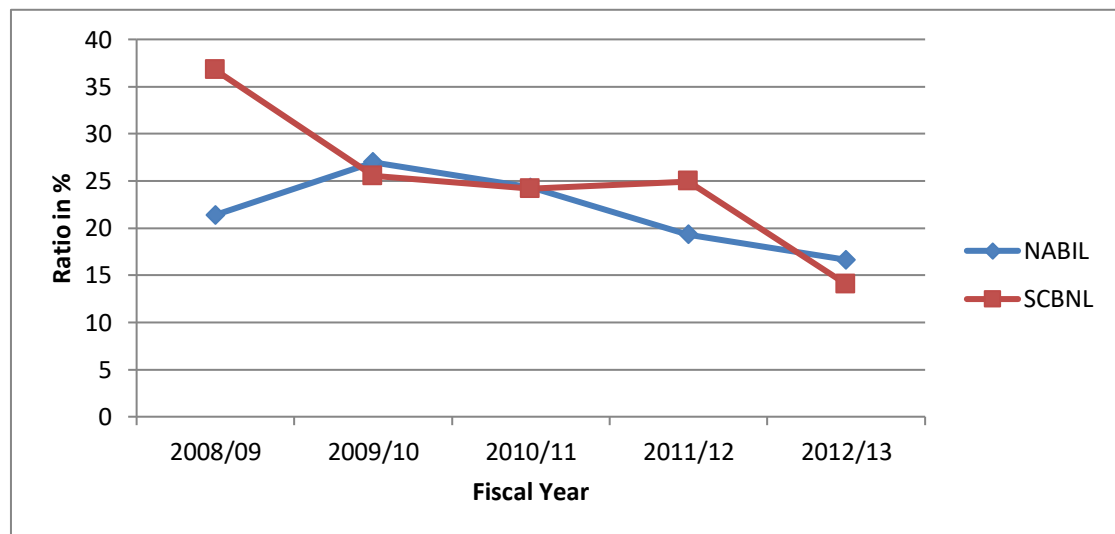
(Ratio in %)

Year	NABIL	SCBNL
2008/09	21.38	36.74
2009/10	26.96	25.51
2010/11	24.31	24.16
2011/12	19.31	24.94
2012/13	16.63	14.04
Mean	21.72	25.07
S.D.	4.06	8.04
C.V.	18.70	32.08

Source: Appendix I

Figure 4.4

Investment on Government Securities to Current Assets Ratio



The above table shows the investment on government securities to current assets of NABIL and SCBNL during the study period 2008/09 to 2012/13. The investment on government securities to current assets ratio of NABIL is in decreasing trends except in fiscal year 2008/09. The ratio is ranged from 16.63% in fiscal year 2012/13 to 26.96% in fiscal year 2009/10. Likewise, the investment on government securities to current assets ratio of SCBNL also is in

decreasing trends and ranged from 14.04% in fiscal year 2012/13 to 36.74% in fiscal year 2008/09. Considering the average ratio of the both bank, we can say that the NABIL (21.72%) has maintained the lower ratio than SCBNL (25.07%). CV of NABIL is less than SCBNL. Which means the variability of NABIL is more consistent and homogeneous than that of SCBNL.

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

4.1.1.5 Loans and Advances to Current Assets Ratio

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

Table 4.5
Loan and Advances to Current Assets Ratio

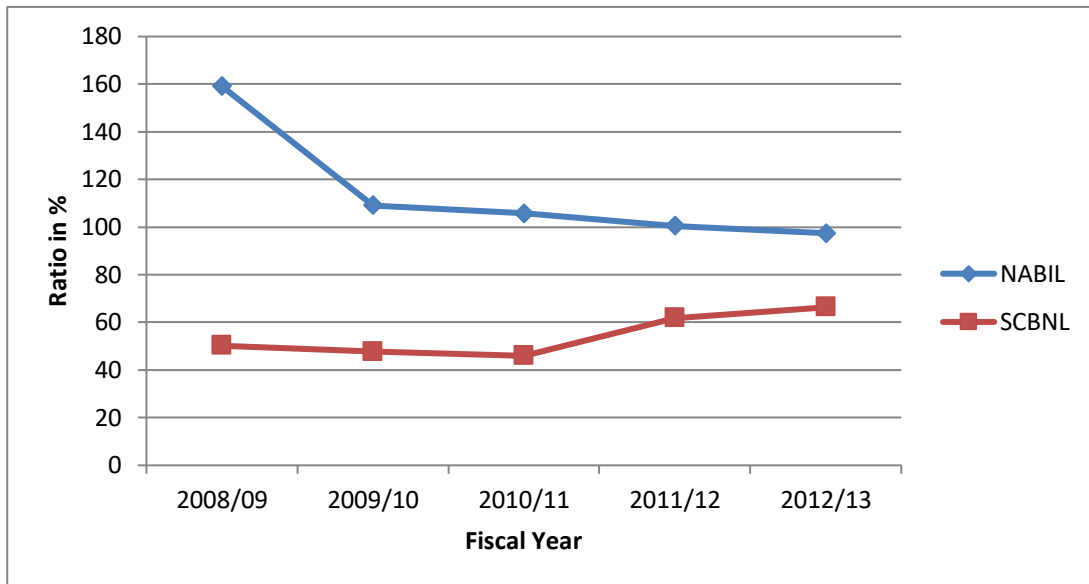
(Ratio in %)

Year	NABIL	SCBNL
2008/09	159.13	50.26
2009/10	109.10	47.70
2010/11	105.71	45.96
2011/12	100.51	61.86
2012/13	97.44	66.33
Mean	114.38	54.42
S.D.	25.42	9.10
C.V.	22.23	16.72

Source: Appendix I

Figure 4.5

Loan and Advances to Current Assets Ratio



The above table shows the loan and advance to current assets ratio of NABIL and SCBNL over the study period. From the table and figure it is seen that the ratio of loans and advances to current assets of NABIL is in decreasing trend and ranged from 97.44% in fiscal year 2012/13 to 159.13% in fiscal year 2008/09. Likewise, the ratio of SCBNL is in decreasing trend from the fiscal year 2008/09 to 2010/11 and then increasing trend up to final fiscal year 2012/13. Overall the ratios of SCBNL are in fluctuating trend and ranged from 45.96% in fiscal year 2010/11 to 66.33% in fiscal year 2012/13.

While calculating the average loan and advance to current ratios, NABIL (114.38%) has the higher ratios than the SCBNL (54.42%). Thus, what we can conclude saying is the SCBNL has not maintained the satisfactory level of the loans and advances to current assets ratios. It means the bank is poor to mobilize its fund as loans and advances with respect to current assets than NABIL. The overall liquidity position of the NABIL bank is satisfactory. And NABIL has maintained the higher ratio that implies that it has used the most of its fund from the current assets for loans and advances.

4.1.2 Assets Management Ratio (Activity Ratio)

This ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets properly to earn high profit. Under this ratios the following ratios are calculated which are as follows.

4.1.2.1 Loan and Advance to Total Deposit Ratio

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

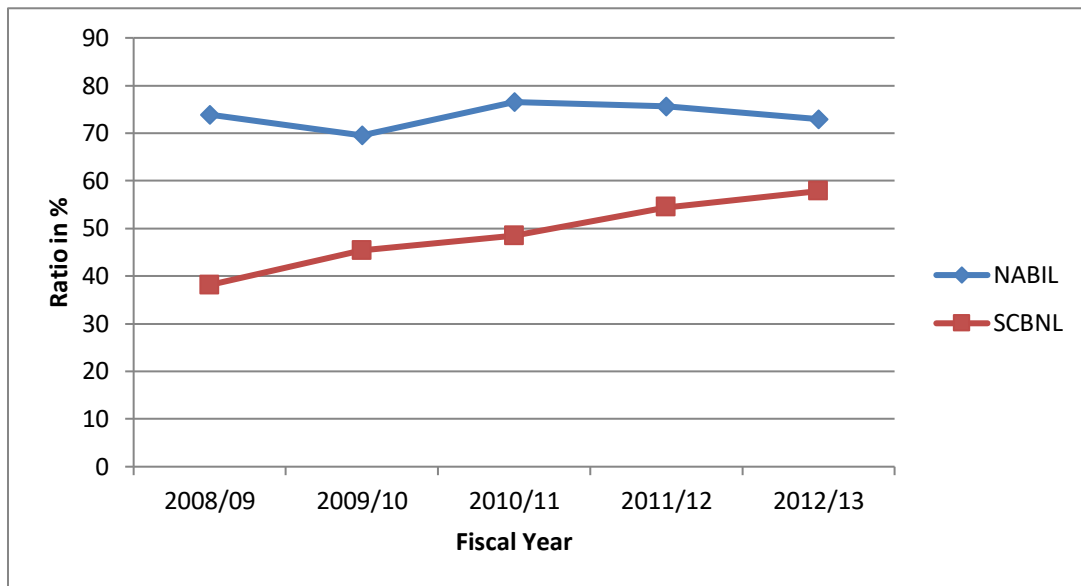
Table 4.6
Loan and Advance to Total Deposit Ratio

(Ratio in %)

Year	NABIL	SCBNL
2008/09	73.87	38.14
2009/10	69.53	45.35
2010/11	76.53	48.49
2011/12	75.61	54.43
2012/13	72.90	57.84
Mean	73.69	48.85
S.D.	2.73	7.73
C.V.	3.70	15.83

Source: Appendix I

Figure 4.6
Loan and Advance to Total Deposit Ratio



The above table shows the loan and advances to total deposit of NABIL and SCBNL during the fiscal year 2008/09 to 2012/13. The table depicts that the ratio of loan and advances to total deposit of NABIL has fluctuated during the periods, i.e. 73.87% in the fiscal year 2008/09, then decreased to 69.63% in the fiscal year 2009/10, then after increased to 76.53% in the fiscal year 2010/11, and then has decreased to 72.90% in the fiscal year 2012/13. In average, NABIL has mobilized 73.69% of the total deposit in granting loans and advances.

Similarly, the loan and advance to total deposit ratio in SCBNL is in increasing trend during the study period. The ratio is lowest, 38.14%, in the fiscal year 2008/09 and highest, 57.84%, in the fiscal year 2012/13. In average, 48.85% of the total deposit has been mobilized in providing loans and advances and the coefficient of variation on such ratio is 15.83%.

The mean ratio of NABIL (73.69%) is the higher than SCBNL (48.85%). From the above analysis, it can be concluded that NABIL is aggressive than SCBNL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NABIL than in SCBNL.

4.1.2.2 Total Investment to Total Deposit Ratio

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

Table 4.7
Total Investment to Total Deposit Ratio

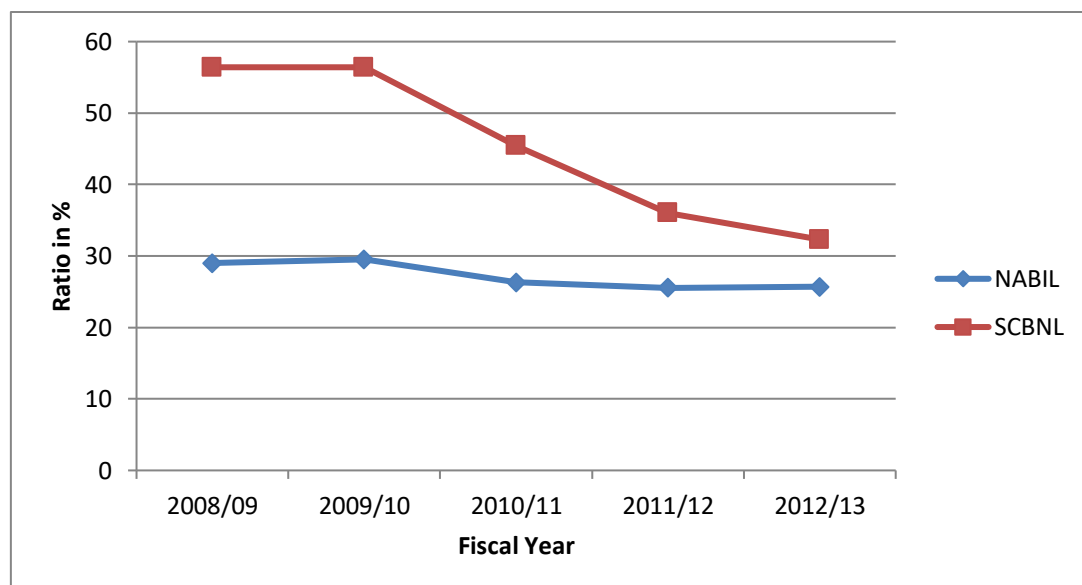
(Ratio in %)

Year	NABIL	SCBNL
2008/09	28.99	56.41
2009/10	29.53	56.41
2010/11	26.32	45.42
2011/12	25.53	36.05
2012/13	25.68	32.31
Mean	27.21	45.32
S.D.	1.90	11.19
C.V.	6.99	24.70

Source: Appendix I

Figure 4.7

Total Investment to Total Deposit Ratio



The above table shows the investment to total deposit ratio of NABIL and SCBNL during the fiscal year 2008/09 to 2012/13. The table shows that, except in the fiscal year 2009/10, the ratio in NABIL is almost in decreasing trend. The ratios of NABIL are 28.99%, 29.53%, 26.32%, 25.53% and 25.68% in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, NABIL has disbursed 27.21% of the total deposit as investment.

Likewise, the ratio in SCBNL has followed decreasing trend during the study period. The ratios are 56.41%, 56.41%, 45.42%, 36.05% and 32.31% in the fiscal year 2008/09, 2009/10, 2010/11 2011/12 and 2012/13 respectively. In average, SCBNL has disbursed 45.32% total deposit as investment. Further the coefficient of variation of 24.70% indicated consistency in the ratio.

The average investment to total deposit ratio of SCBNL is higher than the NABIL. Thus it is clear from the table that the SCBNL has mobilized more of its total deposit on total investment.

4.1.2.3 Loan and advance to total working fund ratio

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

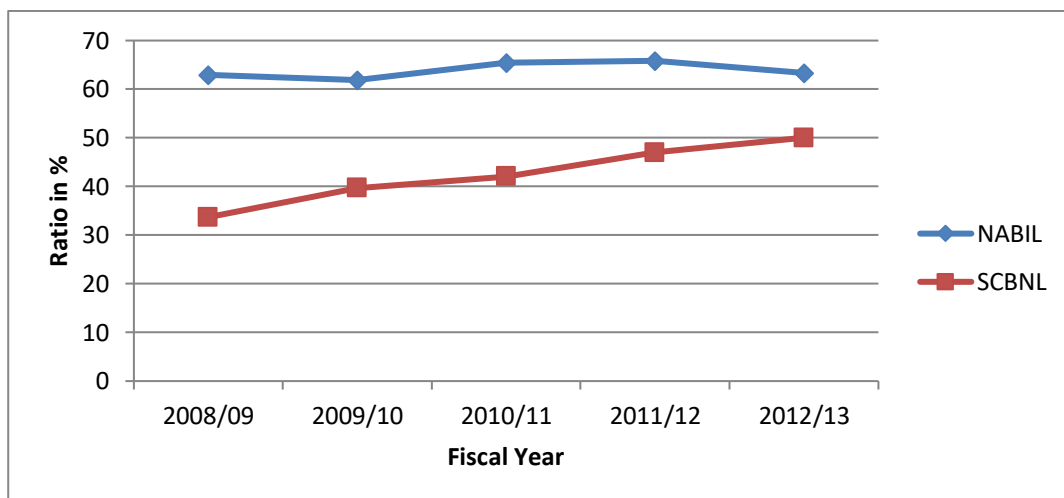
Table 4.8
Loan and Advance to Total Working Fund Ratio

(Ratio in %)

Year	NABIL	SCBNL
2008/09	62.89	33.70
2009/10	61.88	39.68
2010/11	65.42	42.06
2011/12	65.84	46.97
2012/13	63.31	50.03
Mean	63.87	42.49
S.D.	1.70	6.37
C.V.	2.66	14.99

Source: Appendix I

Figure 4.8
Loan and Advance to Total Working Fund Ratio



The above table shows the loan and advance to total working fund ratio of The NABIL and SCBNL during the study period 2008/09 to 2012/13. The ratio of NABIL is in fluctuating trends and ranged from 61.88% in fiscal year 2009/10 to 65.84% in fiscal year 2011/12. In an average the ratio maintains by NABIL is 63.87 with the 2.66% of coefficient of variation.

Likewise, the ratios in SCBNL have the increasing trend. The ratio of SCBNL is ranged from 33.70% in fiscal year 2008/09 to 50.03% in fiscal year 2012/13. In an average the loan and advance to total working fund ratio of SCBNL is 42.49%.

The mean ratio shows that the NABIL has the higher ratio than SCBNL. It shows SCBNL has the weak condition in mobilizing its total working fund as loans and advances. The CV of NABIL is lower than the SCBNL. Thus, NABIL is more consistent that of SCBNL.

4.1.2.4 Investment on Government Securities to Total Working Fund Ratio

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

Table 4.9

Investment on Government Securities to Total Working Fund Ratio

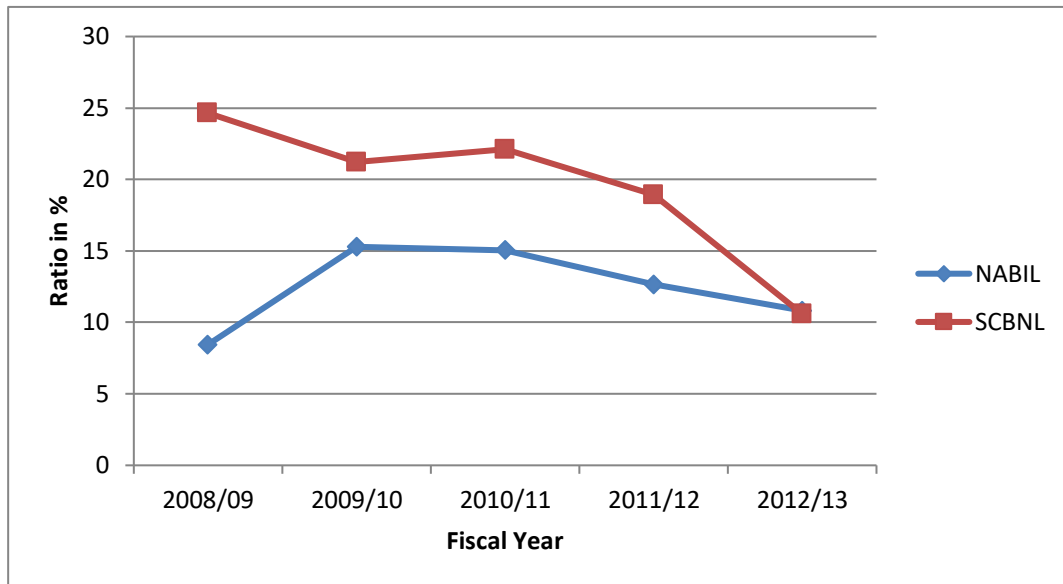
(Ratio in %)

Year	NABIL	SCBNL
2008/09	8.45	24.64
2009/10	15.29	21.22
2010/11	15.04	22.11
2011/12	12.65	18.93
2012/13	10.81	10.59
Mean	12.45	19.50
S.D.	3.17	2.36
C.V.	25.48	12.09

Source: Appendix I

Figure 4.9

Investment on Government Securities to Total Working Fund Ratio



The above table and figure shows the investment on government securities to total working fund ratio of SCBNL and NABIL during the study period 2008/09 to 2012/13. The ratios of NABIL and SCBNL are in decreasing trends.

Looking at the mean ratio, SCBNL (19.50%) has the higher than that of NABIL (12.45%). With the higher mean ratio, SCBNL has the better position in the ratio of investment on government securities to total working fund. Thus SCBNL has utilized more of its total working fund in investment of government securities as compare to NABIL.

4.1.2.5 Investment on Share and Debentures to Total Working Fund Ratio

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

Table 4.10

Investment on Shares and Debentures to Total Working Fund Ratio

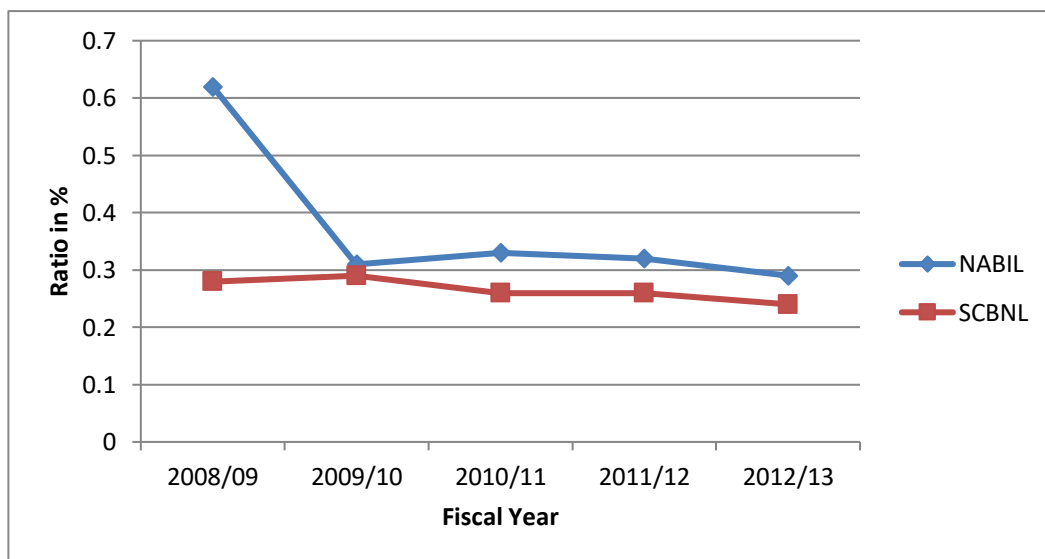
(Ratio in %)

Year	NABIL	SCBNL
2008/09	0.62	0.28
2009/10	0.31	0.29
2010/11	0.33	0.26
2011/12	0.32	0.26
2012/13	0.29	0.24
Mean	0.37	0.27
S.D.	0.14	0.02
C.V.	37.48	7.18

Source: Appendix I

Figure 4.10

Investment on Shares and Debentures to Total Working Fund Ratio



The above table shows the investment on share and debenture to total working fund ratio of NABIL and SCBNL during the fiscal year 2008/09 to 2012/13. The ratio of NABIL and SCBNL are in fluctuating trend. On the basis of the mean ratios the NABIL (0.37%) has the higher ratio than the SCBNL (0.27%). Thus, NABIL has the good position of investment on shares and debentures to total working fund than SCBNL.

4.1.3 Profitability Ratio

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

4.1.3.1 Return on Total working fund / Return on total assets ratio

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

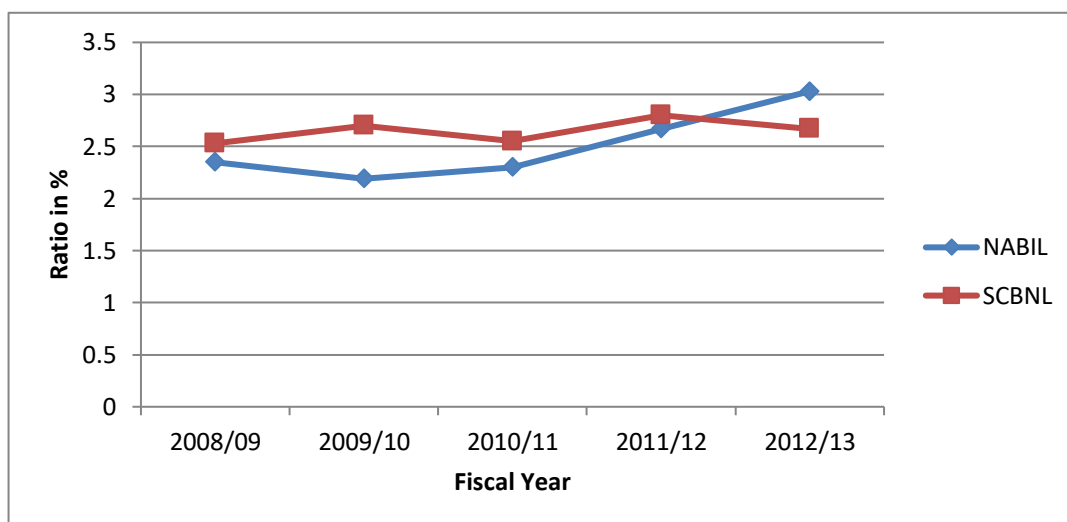
Table 4.11
Return on Total Working Fund Ratio

(Ratio in %)

Year	NABIL	SCBNL
2008/09	2.35	2.53
2009/10	2.19	2.70
2010/11	2.30	2.55
2011/12	2.67	2.80
2012/13	3.03	2.67
Mean	2.51	2.65
S.D.	0.34	0.11
C.V.	13.66	4.28

Source: Appendix I

Figure 4.11
Return on Total Working Fund Ratio



The above table and figure shows the return on working fund ratio of NABIL and SCBNL during the fiscal year 2008/09 to 2012/13. From the table the return on working fund of both of the banks are in fluctuating trend. The mean return on working fund ratio of SCBNL (2.65%) has the higher ratio than NABIL (2.51%) thus, SCBNL is highly efficient to earn net profit and return as well. Thus from the analysis, it can be said that SCBNL is in strong position in the earning capacity, by utilizing available resources than the other banks. Similarly, CV of SCBNL is the lower than NABIL so SCBNL is significant and consistently more stables too to earn capacity maintained and net profit generated than NABIL.

4.1.3.2 Total Interest Earned to Total Outside Assets Ratio

It reflects that the extent to which the bank is successful to earn interest as major income on all the outside assets. Higher the ratio higher will be the earning power of total outside assets. This is very important ratio as the main assets are the outside assets of a commercial bank. Total outside assets includes, loans and advances for commercial banks, government securities, shares, debentures and others. The following table shows the total interest earned to total outside assets ratio of NABIL and SCBNL.

Table 4.12

Total Interest Earned to Total Outside Assets Ratio

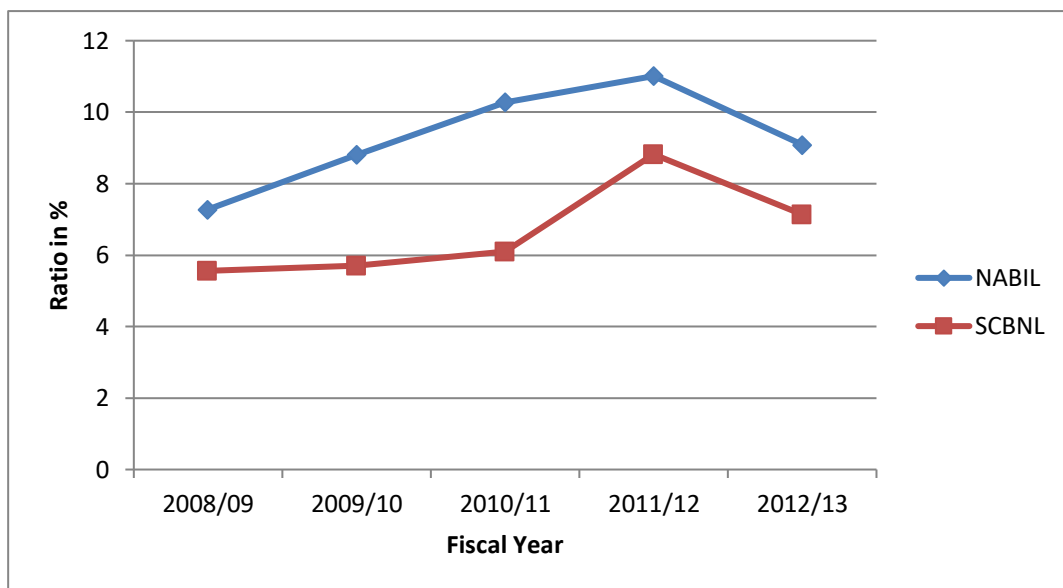
(Ratio in %)

Year	NABIL	SCBNL
2008/09	7.28	5.56
2009/10	8.81	5.70
2010/11	10.28	6.09
2011/12	11.01	8.82
2012/13	9.09	7.13
Mean	9.30	6.66
S.D.	1.43	1.35
C.V.	15.42	20.33

Source: Appendix I

Figure 4.12

Total Interest Earned to Total Outside Assets Ratio



The above table and figure shows the interest earned to total outside assets ratio of NABIL and SCBNL during the fiscal year 2007/08 to 2012/13. The table shows that both of the banks follow the increasing trend in the total interest earned to total outside assets ratio except in fiscal year 2012/13. The interest earned to total outside assets ratio of NABIL is ranged from 7.28% in fiscal year 2008/09 to 11.01% in fiscal year 2011/12. And the ratio of SCBNL is

ranged from 5.56% in fiscal year 2008/09 to 8.82% in fiscal year 2011/12. From the view point of mean ratio the NABIL (9.30%) has the higher ratio than SCBNL (6.66%). Thus this shows that NABIL is earning high interest income from the outside assets than SCBNL.

4.1.3.3 Total Interest Earned to Total Working Fund

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

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

The following table shows the total interest earned to total working fund ratio of NABIL and SCBNL.

Table 4.13
Total Interest Earned to Total Working Fund Ratio

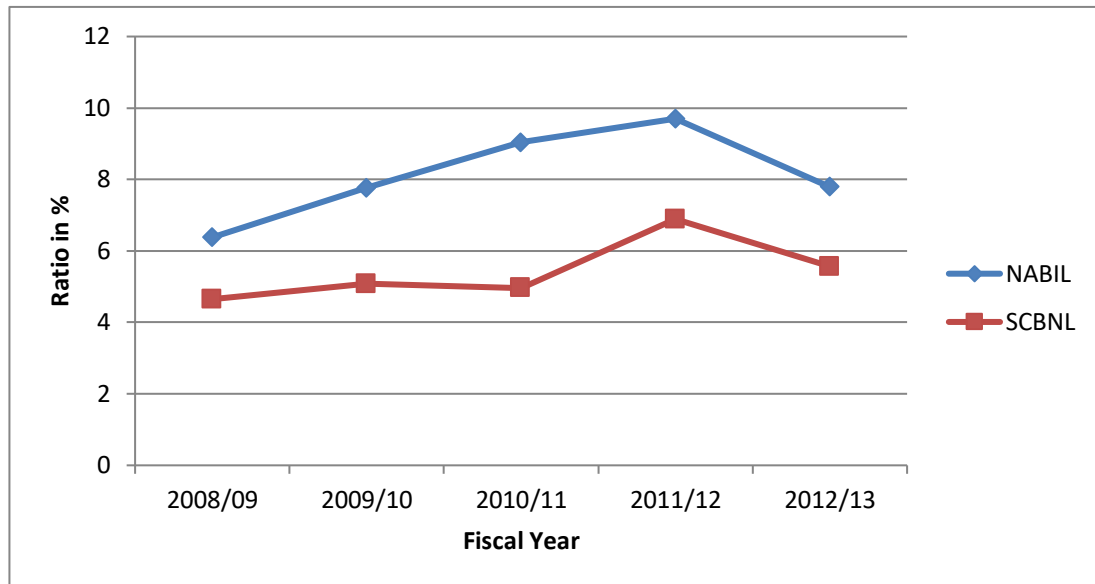
(Ratio in %)

Year	NABIL	SCBNL
2008/09	6.38	4.65
2009/10	7.77	5.08
2010/11	9.04	4.96
2011/12	9.70	6.89
2012/13	7.79	5.56
Mean	8.13	5.43
S.D.	1.28	0.88
C.V.	15.78	16.22

Source: Appendix I

Table 4.13

Total Interest Earned to Total Working Fund Ratio



The above table shows the total interest earned to total working fund ratio of NABIL and SCBNL during the fiscal year 2008/09 to 2012/13. The interest income to total working fund ratio of both of the banks are in increasing trend except in final fiscal year. With the view point of mean ratio the bank NABIL has the higher ratio than SCBNL. This means that the NABIL is in higher position to earn interest to total working fund. Thus we can conclude that NABIL is able to earn high interest return from the total working fund than the SCBNL because high ratio is an indicator of high earning power of the bank of its total working fund and vice versa.

4.1.3.4 Total interest Paid to Total Working Fund Ratio

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

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

The following table shows the total interest paid to total working fund ratio of NABILL and SCBNL.

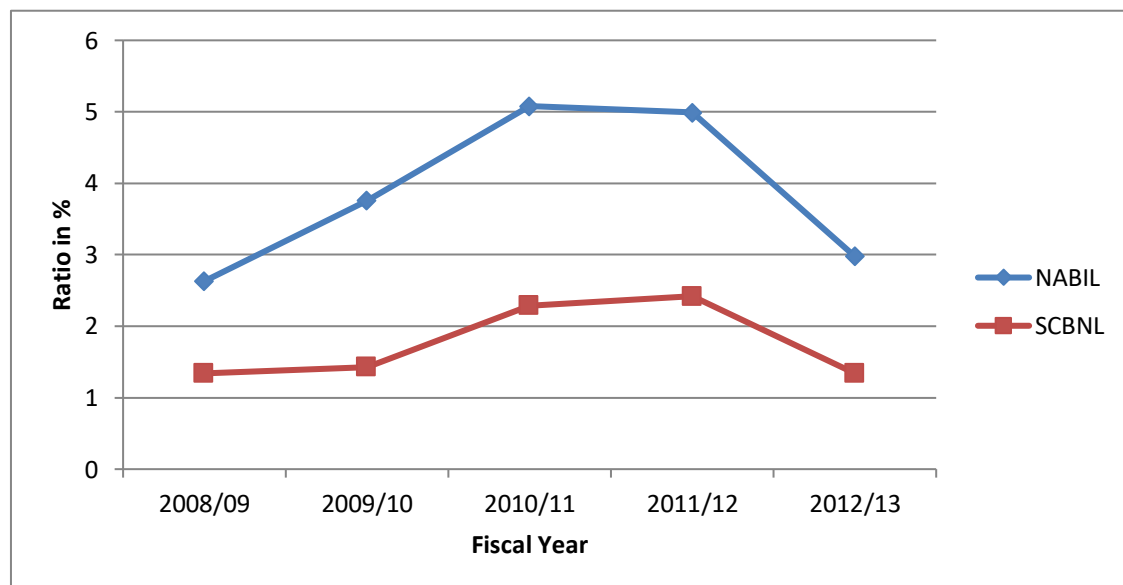
Table 4.14
Total Interest Paid to Total Working Fund Ratio

(Ratio in %)

Year	NABIL	SCBNL
2008/09	2.63	1.34
2009/10	3.76	1.43
2010/11	5.08	2.29
2011/12	4.99	2.42
2012/13	2.98	1.34
Mean	3.89	1.76
S.D.	1.13	0.54
C.V.	28.94	30.70

Source: Appendix I

Figure 4.14
Total Interest Paid to Total Working Fund Ratio



The above table and figure shows the interest paid to working fund ratio of NABIL and SCBNL during the fiscal year 20078/09 to 2012/13. The ratio of NABIL and SCBNL is increasing trends up to fiscal year 2010/121 and then started to decrease. Looking at the mean ratio, NABIL (3.89%) has the higher

mean ratio than SCBNL (1.76%) which means that the NABIL is higher in paying interest on total working fund. Similarly, with the view of CV, NABIL (29.94%) has the lower than SCBNL which means NABIL is more consistent than SCBNL (30.70%).

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

4.1.3.5 Return on Total Investment Ratio

This ratio actually measures the total interest income from total investment. A high ratio of interest income from investment indicates high mobilization of collected deposits in investment and vice versa.

Table 4.15
Return on Total Investment Ratio

(Ratio in %)

Year	NABIL	SCBNL
2008/09	9.52	5.07
2009/10	8.33	5.47
2010/11	10.23	6.48
2011/12	12.03	9.02
2012/13	13.59	9.55
Mean	10.74	7.12
S.D.	2.08	2.05
C.V.	19.38	28.83

Source: Appendix I

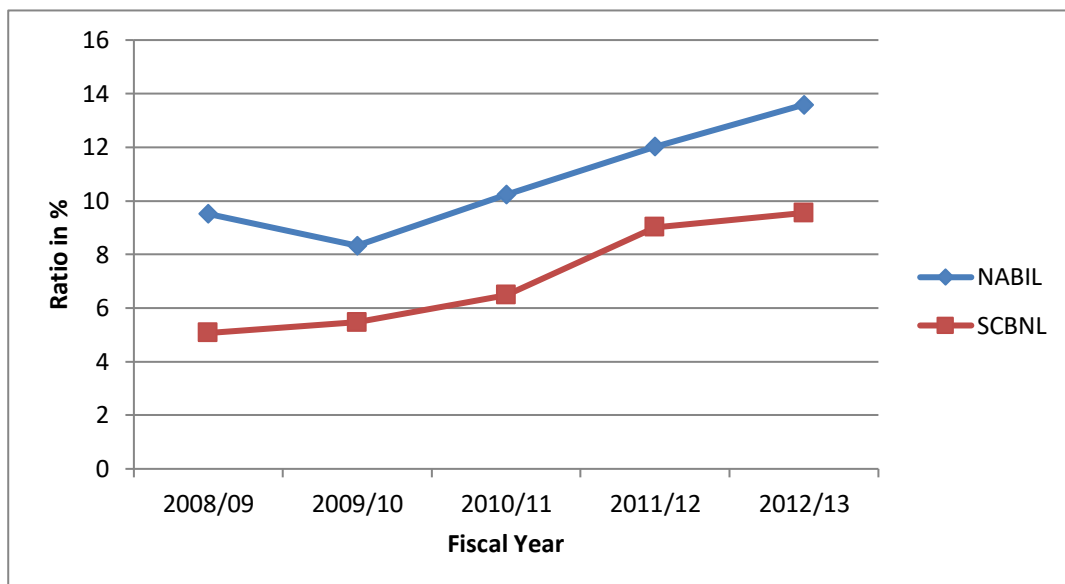
The above table and figure shows the total profit to total investment ratio of NABIL and SCBNL from the fiscal year 2008/09 to 2012/13. The ratios in NABIL are in increasing trend except in fiscal year 2008/09. The ratios are 9.52%, 8.33%, 10.23% 12.03% and 13.59% in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In an average NABIL earns 10.74% return from its investment. Likewise, the net profit to total

investment ratio of SCBNL is in increasing trends except and started from 5.07% in the fiscal year 2008/09 increased to 9.55% in the fiscal year 2012/13. The average net profit to total investment of SCBNL is 7.12% with 28.83% variation.

The mean net profit to total investment ratio of NABIL (10.74%) is higher than that of SCBNL (7.12%) so it can be conclude that NABIL invest in more profitable area than SCBNL.

Figure 4.15

Return on Total Investment Ratio



4.1.4 Risk Ratios

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

4.1.4.1 Credit Risk Ratio

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

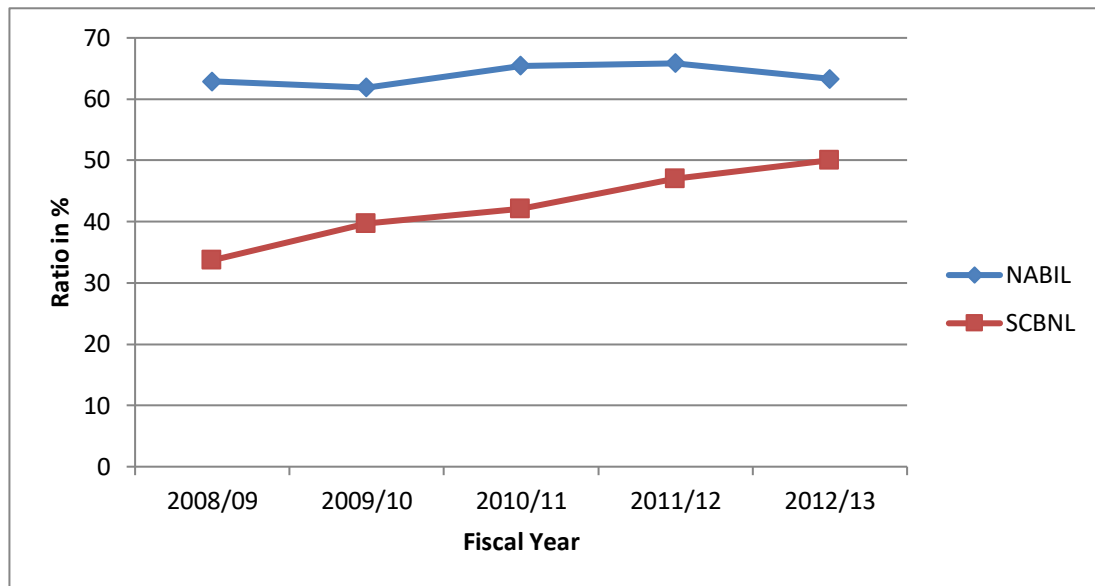
Table 4.16
Credit Risk Ratio

(Ratio in %)

Year	NABIL	SCBNL
2008/09	62.89	33.70
2009/10	61.88	39.68
2010/11	65.42	42.06
2011/12	65.84	46.97
2012/13	63.31	50.03
Mean	63.87	42.49
S.D.	1.70	6.37
C.V.	2.66	14.99

Source: Appendix I

Figure 4.16
Credit Risk Ratio



The above table shows the credit risk ratio of NABIL and SCBNL over the study period. The ratios of credit risk are in fluctuating trend in NABIL but the ratios are in increasing trends in SCBNL during the study period of 2008/09 to 2012/13. The NABIL has the higher mean as compare to the mean of SCBNL, which means that the NABIL has the higher credit risk in compare to SCBNL. Thus in conclusion we can say that the bank NABIL has adopted a high credit risk policy than SCBNL and that SCBNL has adopted less credit risk policy.

4.1.4.2 Liquidity Risk Ratio

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

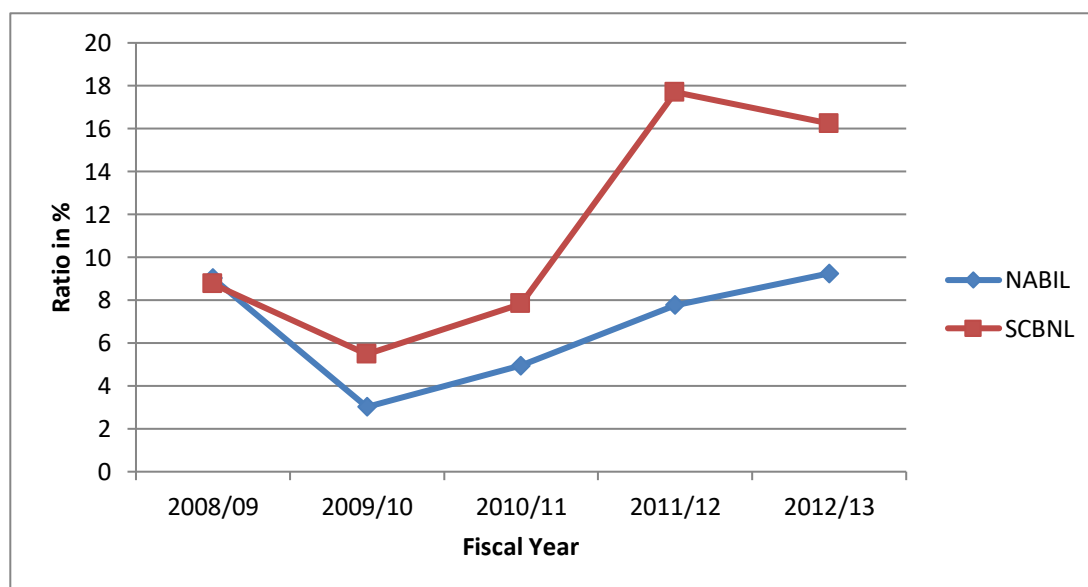
Table 4.17
Liquidity Risk Ratio

(Ratio in %)

Year	NABIL	SCBNL
2008/09	9.03	8.75
2009/10	3.02	5.48
2010/11	4.95	7.83
2011/12	7.77	17.70
2012/13	9.25	16.23
Mean	6.80	11.20
S.D.	2.72	5.42
C.V.	40.03	48.42

Source: Appendix I

Figure 4.17
Liquidity Risk Ratio



Here we have considered the cash and bank balance to total deposit ratio as a liquidity risk ratio. The cash and bank balance total deposits are in fluctuating trend in both NABIL and SCBNL. The Mean ratio of NABIL is lower than the SCBNL and CV of NABIL is lower than the SCBNL. It means that the ratio of NABIL is less variable than that SCBNL. SCBNL has maintained the lower liquidity risk ratio that means it operates with higher risk for higher profit. SCBNL bank has maintained higher mean ratio of cash and bank balance to

total deposits ratio so it means the SCBNL has maintained lower liquidity risk which indicates that the bank is operating with lower risk and lowering profitability.

4.2 Statistical Analysis

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

4.2.1 Coefficient of Correlation Analysis

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

4.2.1.1 Coefficient of Correlation between Deposits and Total Investment

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

Table 4.18
Correlation between Deposits and Total Investment

Bank	NABIL	SCBNL
Correlation Coefficient (r)	0.9608	-0.5858
Coefficient of Determination (r ²)	0.9231	0.3432
Probable Error (P.E)	0.0232	0.1981
6 × P. E.	0.1391	1.1888
Remarks	Significant	Insignificant

Source: Appendix II

The above table shows the correlation between deposit and investment of NABIL and SCBNL. In the above table, it is found that the coefficient of correlation between deposits and investment value of NABIL is 0.9608 which shows there is highly positive relationship between the two variables. However, by applying of Coefficient of determination, the value of r^2 is 0.9231 which indicates that 92.31% of the variation in the dependent variable has been explained by the independent variable. Further, value of r is higher than the 6P.E. It can be concluded that there is significant relationship between the two variables. Thus the HBL bank has been investing their deposits by highly successful policy.

In case of SCBNL it is found that the coefficient of correlation between deposits and investment value is -5858 which shows there is negative relationship between the two variables. Further, value of r is -0.5858 and 6P.E is 1.1888. It shows that the value of Coefficient of correlation (r) is lower than 6 times probable error. It can be concluded that there is insignificant relationship between the two variables. Thus the SCBNL bank has not been investing their deposits by the policy of maximizing the use of their deposits as investment.

We found from the above study that NABIL has higher positive and significant correlation between deposit and investment and SCBNL have the negative correlation and insignificant relationship between deposit and investment.

4.2.1.2 Coefficient of Correlation between deposits and loans and advances

The main objective of finding this relation is to justify whether deposits are significantly uses as loan and advances in a proper way or not. Here, deposit is taken as independent variable (X) and loans and advances is taken as dependent variable (Y). The table below shows the Coefficient of correlation between total deposits and loans and advances calculating ' r ', ' r^2 ', 'P.Er' and '6P.Er' of NABIL and SCBNL during the study period of 2008/09 to 2012/13.

Table 4.19

Correlation between Deposits and Loans and Advances

Bank	NABIL	SCBNL
Correlation Coefficient (r)	0.9839	0.7779
Coefficient of Determination (r ²)	0.9681	0.6051
Probable Error (P.E)	0.0096	0.1191
6 × P. E.	0.0578	0.7147
Remarks	Significant	Significant

Source: Appendix II

The above table shows the correlation between deposit and loan and advance of NABIL and SCBNL. In case of NABIL it is found that the coefficient of correlation between deposits and loans and advances value is 0.9839 which shows there is positive relationship between the two variables. Further, value of P.Er is 0.1191 and 6P.E is 0.7147. It shows that the value of Coefficient correlation (r) is highly greater than the 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the NABIL has been investing their deposits fully on loans and advances.

In case of SCBNL it is found that the coefficient of correlation between deposits and loans and advances value is 0.7779 which shows there is positive relationship between the two variables. By applying of Coefficient of determination, the value of r² is 0.6051 which indicates that 60.51% of the variation in the loans and advances by the deposits. Further, the value of coefficient correlation (r) is greater than 6 times probable error. It can be concluded that there is significant relationship between the two variables. Thus the SCBNL has been investing their deposits by the policy of highly maximizing the use of their deposits as loans and advances. From the above analysis, it can be concluded that both of the banks are successful in mobilizing their deposits as loans and advances. All the value of r is positive and greater than the value of six times of their probable error.

4.2.1.3 Coefficient of Correlation between Investment and Net Profit

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

Table 4.20

Coefficient of Correlation between Investment and Net Profit

Bank	NABIL	SCBNL
Correlation Coefficient (r)	0.8924	-0.9415
Coefficient of Determination (r ²)	0.7964	0.8864
Probable Error (P.E)	0.0614	0.0343
6 × P. E.	0.3685	0.2056
Remarks	Significant	Insignificant

Source: Appendix II

The above table shows the correlation between investment and net profit of NABIL and SCBNL. In case of NABIL it is found that the coefficient of correlation between investment and net profit value is 0.8924 which shows there is positive relationship between the two variables. But in SCBNL the correlation between investment and net profit is highly negative and the value is -0.9415. Further, the value of coefficient of correlation (r) is greater than 6 times probable error in NABIL, it can be concluded that there is significant relationship between the two variables. Thus the NABIL bank has been successful in mobilizing its outside assets for earning profit. The value of coefficient correlation (r) is lower than 6 times probable error in SCBNL. It cannot be concluded about significant of relationship between the two variables.

4.3 Major Findings of the Study

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

- The average liquidity of two banks NABIL (1.27times) is greater than that of SCBNL (1.13times). Thus, the liquidity position of NABIL is sound than SCBNL. Similarly the CV of NABIL is less than the SCBNL. It can be said that current ratio of NABIL is more consistent that SCBNL.
- SCBNL (11.20%) has maintained the higher cash and bank balance to total deposit ratio than NABIL (9.25%). It shows that the cash and bank balance in liquidity position of SCBNL is higher than NABIL. It states that the cash and bank balance in liquidity position of NABIL is lower than SCBNL. It shows that there could be some difficulties to meet the demand of its customers to pay their deposit on at any time.
- The mean cash and bank balance to current assets ratio of SCBNL (12.69%) is the higher than NABIL (10.74%). However, CV of SCBNL<NABIL thus, SCBNL is more consistent than NABIL. Thus, it can be concluded that SCBNL is highly capable for maintaining cash and bank balance in comparison to NABIL.
- Considering the average investment on government securities to current assets ratio of the both bank, we can say that the NABIL (21.72%) has maintained the lower ratio than SCBNL (25.07%). CV of NABIL is less than SCBNL. Which means the variability of NABIL is more consistent and homogeneous than that of SCBNL.
- The average loan and advance to current ratios, NABIL (114.38%) has the higher ratios than the SCBNL (54.42%). Thus, what we can conclude saying is the SCBNL has not maintained the satisfactory level of the loans and advances to current assets ratios. It means the bank is poor to mobilize its fund as loans and advances with respect to current assets than NABIL. The overall liquidity position of the NABIL bank is satisfactory

- The mean loan and advances to total deposit ratio of NABIL (73.69%) is the higher than SCBNL (48.85%). From the above analysis, it can be concluded that NABIL is aggressive than SCBNL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NABIL than in SCBNL.
- The average investment to total deposit ratio of SCBNL is higher than the NABIL. Thus it is clear from the table that the SCBNL has mobilized more of its total deposit on total investment.
- The mean loan and advance to total working fund ratio shows that the NABIL has the higher ratio than SCBNL. It shows SCBNL has the weak condition in mobilizing its total working fund as loans and advances. The CV of NABIL is lower than the SCBNL. Thus, NABIL is more consistent than that of SCBNL.
- In an average investment on government securities to total working fund ratio, SCBNL (19.50%) has the higher than that of NABIL (12.45%). With the higher mean ratio, SCBNL has the better position in the ratio of investment on government securities to total working fund. Thus SCBNL has utilized more of its total working fund in investment of government securities as compare to NABIL.
- The mean return on working fund ratio of SCBNL (2.65%) has the higher ratio than NABIL (2.51%) thus, SCBNL is highly efficient to earn net profit and return as well. Thus from the analysis, it can be said that SCBNL is in strong position in the earning capacity, by utilizing available resources than the other banks.
- From the view point of mean ratio the NABIL (9.30%) has the higher ratio than SCBNL (6.66%). Thus this shows that NABIL is earning high interest income from the outside assets than SCBNL.
- NABIL is able to earn high interest return from the total working fund than the SCBNL because high ratio is an indicator of high earning power of the bank of its total working fund and vice versa.

- NABIL (3.89%) has the higher mean interest paid to working fund ratio than SCBNL (1.76%) which means that the NABIL is higher in paying interest on total working fund. Thus in conclusion, we can say that the NABIL has paid more interest to the total working fund than the SCBNL and it is more consistent than that of SCBNL.
- The mean net profit to total investment ratio of NABIL (10.74%) is higher than that of SCBNL (7.12%) so it can be conclude that NABIL invest in more profitable area than SCBNL.
- The NABIL has the higher mean as compare to the mean of SCBNL, which means that the NABIL has the higher credit risk in compare to SCBNL. Thus in conclusion we can say that the bank NABIL has adopted a high credit risk policy than SCBNL and that SCBNL has adopted less credit risk policy.
- NABIL has higher positive and significant correlation between deposit and investment and SCBNL have the negative correlation and insignificant relationship between deposit and investment.
- The coefficient of correlation between investment and net profit is 0.8924 in NABIL which shows there is positive relationship between the two variables. But in SCBNL the correlation between investment and net profit is highly negative and the value is -0.9415. Further, the value of coefficient of correlation (r) is greater than 6 times probable error in NABIL, it can be concluded that there is significant relationship between the two variables.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The research problem has identified and objectives are set to solve research problems about investment policy of NABII Bank Limited and Standard Chartered Bank Nepal Limited in chapter one. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to undertake this research more precisely.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc. and authorize web site of NABIL and SCBNL.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which, consists current ratio, liquidity ratio, assets management ratio, profitability ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through secondary data. The major findings of the study are also included in the final section of the presentation and analysis chapter.

Investment practice of commercial banks is a very risky one. For this, Investment practice of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends on investment policy. A healthy development of any

commercial bank depends on borrowers and the lenders, which helps to increase the volume of quality deposits and investment. Investment positions are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from the expected rate of return. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return.

5.2 Conclusion

From this study, it has been found that both banks have non-satisfactory current ratio in the study period both banks have lower current ratio than 2:1. During the study period the current ratio of NABIL is in very fluctuating trend whereas SCBNL has tried to maintain increasing trend of current ratio during the period. SCBNL has maintained the higher cash and bank balance to total deposit ratio than NABIL.

1. It shows that the cash and bank balance in liquidity position of SCBNL is higher than NABIL. It states that the cash and bank balance in liquidity position of NABIL is lower than SCBNL. It shows that there could be some difficulties to meet the demand of its customers to pay their deposit on at any time. The mean cash and bank balance to current assets ratio of SCBNL is the higher than NABIL. However, coefficient of variation of SCBNL is lower than that of NABIL thus, SCBNL is more consistent than NABIL. Thus, it can be concluded that SCBNL is highly capable for maintaining cash and bank balance in comparison to NABIL.
2. Considering the average investment on government securities to current assets ratio of the both bank, we can say that the NABIL has maintained the lower ratio than SCBNL. Coefficient of variation of NABIL is less than SCBNL. Which means the variability of NABIL is more consistent and homogeneous than that of SCBNL. The average loan and advance to current ratios, NABIL has the higher ratios than the SCBNL. Thus, what we can conclude saying is the SCBNL has not maintained the satisfactory level of the loans and advances to current assets ratios. It means the bank is poor to mobilize its fund as loans and advances with respect to current

assets than NABIL. The overall liquidity position of the NABIL bank is satisfactory

3. The loan and advances to total deposit ratio of NABIL is the higher than SCBNL. From the above analysis, it can be concluded that NABIL is aggressive than SCBNL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NABIL than in SCBNL. The average investment to total deposit ratio of SCBNL is higher than the NABIL. Thus it is clear from the table that the SCBNL has mobilized more of its total deposit on total investment. The mean loan and advance to total working fund ratio shows that the NABIL has the higher ratio than SCBNL. It shows SCBNL has the weak condition in mobilizing its total working fund as loans and advances. The CV of NABIL is lower than the SCBNL. Thus, NABIL is more consistent that of SCBNL.
4. The investment on government securities to total working fund ratio, SCBNL has the higher than that of NABIL. With the higher mean ratio, SCBNL has the better position in the ratio of investment on government securities to total working fund. Thus SCBNL has utilized more of its total working fund in investment of government securities as compare to NABIL. The mean return on working fund ratio of SCBNL has the higher ratio than NABIL thus, SCBNL is highly efficient to earn net profit and return as well. Thus from the analysis, it can be said that SCBNL is in strong position in the earning capacity, by utilizing available resources than the other banks. NABIL is able to earn high interest return from the total working fund than the SCBNL because high ratio is an indicator of high earning power of the bank of its total working fund and vice versa. NABIL has the higher mean interest paid to working fund ratio than SCBNL which means that the NABIL is higher in paying interest on total working fund. Thus in conclusion, we can say that the NABIL has paid more interest to the total working fund than the SCBNL and it is more consistent than that of SCBNL.

5. The NABIL has the higher mean as compare to the mean of SCBNL, which means that the NABIL has the higher credit risk in compare to SCBNL. Thus in conclusion we can say that the bank NABIL has adopted a high credit risk policy than SCBNL and that SCBNL has adopted less credit risk policy. NABIL has higher positive and significant correlation between deposit and investment and SCBNL have the negative correlation and insignificant relationship between deposit and investment. The coefficient of correlation between investment and net profit of NABIL is positive. But in SCBNL the correlation between investment and net profit is highly negative. Further, the value of coefficient of correlation (r) is greater than 6 times probable error in NABIL, it can be concluded that there is significant relationship between the two variables.

5.3 Recommendations

On the basis of above analysis and findings of the study, following suggestions can be advances to overcome weakness, inefficiency and satisfactory improvement of the present fund mobilization and investment policy of NABIL as well as SCBNL.

- The liquid asset maintained by NABIL and SCBNL was lower than normal standard 2:1. Thus, it would be better if NABIL and SCBNL increase the liquid assets considering the short-term liabilities requirement.
- Both the banks have given high priority only to the government securities while making investments, however, the return on corporate securities and debentures is greater than that of government securities. It would be worthwhile if both the banks divert more investment amount to corporate shares and debentures.
- The mobilization of total deposit in investment is greater in NABIL than in SCBNL so it would be better if SCBNL mobilized more in investment.
- SCBNL has mobilized the total funds in investment in greater extent than NABIL so it would be better to mobilized more in NABIL.

- The term investment is very important for commercial bank and main function also. Investment means use of their resource in different income sector. The study shows that the trend of investment of SCBNL is decreasing level. So it is recommended to SCBNL to keep wide vision in investment while they utilizing their recourse and invest in different areas.

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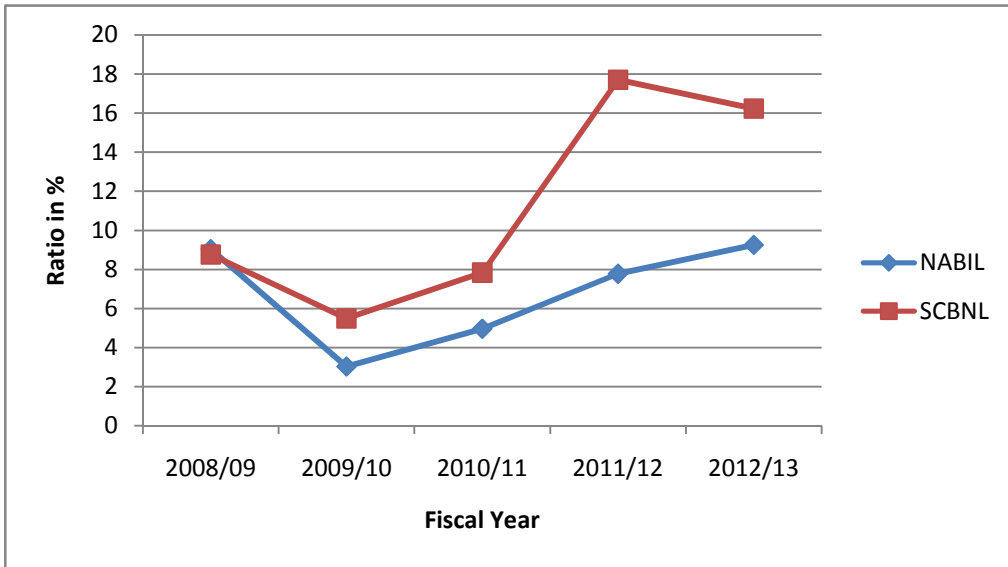
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Year	NABIL	SCBNL
2008/09	9.03	8.75
2009/10	3.02	5.48
2010/11	4.95	7.83
2011/12	7.77	17.7
2012/13	9.25	16.23



C) Calculation of correlation coefficient of Investment and Net Profit of NABIL

Fiscal Year	Investment	Net Profit	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
	X	Y					
2008/09	10826379	1031053	-2771944.4	-452547.6	7683675756691	204799330265.76	1254436785553.44
2009/10	13703024	1141051	104700.6	-342549.6	10962215640	117340228460.16	-35865148649.76
2010/11	13081205	1337745	-517118.4	-145855.6	267411439619	21273856051.36	75424614503.04
2011/12	14048966	1689392	450642.6	205791.4	203078752935	42350100313.96	92738371553.64
2012/13	16332043	2218762	2733719.6	735161.4	7473222851424	540462284049.96	2009725128343.44
Total	67991617	7418003			15638351016309	926225799141.20	3396459751303.80

i) Calculation of Mean

For Investment Mean $\bar{X} = X/5 = 13598323.40$	For Net Profit $\bar{Y} = Y/5 = 1483600.60$
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ii) Calculation of Correlation Coefficient between Investment and Net Profit

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{3396459751304}{\sqrt{3805869699206}} = 0.8924$$

E) Calculation of correlation coefficient of Deposit and Loans & Advances of SCBNL

Fiscal Year	Deposit	LA	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
	X	Y					
2008/09	35871721	13679757	-1025432.6	-4414000.6	1051512017143	19483401296800.40	4526260111660
2009/10	35182721	15956955	-1714432.6	-2136802.6	2939279139943	4565925351366.77	3663404037205
2010/11	37999242	18427270	1102088.4	333512.4	1214598841415	111230520953.76	367560147296
2011/12	35965631	19575968	-931522.6	1482210.4	867734354311	2196947669868.16	-1380712485555
2012/13	39466453	22828838	2569299.4	4735080.4	6601299406840	22420986394464.10	12165839230672
Total	184485768	90468788			12674423759651	48778491233453.2	19342351041277

i) Calculation of Mean

	For Deposit		For Loan and Advance	
Mean	$\bar{X} = X/5 =$	36897153.60	$\bar{Y} = Y/5 =$	18093757.60

ii) Calculation of Correlation Coefficient between Deposit and Loans & Advances

$$r = \frac{xy}{x^2 y^2} = \frac{19342351041277}{24864417713858} = 0.7779$$