CHAPTER-I
INTRODUCTION

1.1 Background of Study

A bank is a business organization that receives and holds deposits of funds from others and makes loans or extends credits and transfers funds by written orders of deposits.(Alexander, 600-4) .It as the institute which accepts deposits and grants loans and the person can withdraw deposited amount at any time. Nepali Encyclopedia takes as bank to those commercial, government or non-government institute which accept deposit, provides interest on it, pays when demanded provides loan, Tejarath work etc. The lending product portfolio includes commercial loans products such as demand loans, cash credits, overdraft, trust receipts and term loans, whereas a complete portfolio of personal and retail credit products are also provided by the bank .GIBL's focus has been stretched out to financial supports to corporate and Infrastructure sectors with preferences on renewal energy,SME, Retail and Micro Financing loans. The examiner's evaluation of the loan portfolio involves much more than merely appraising individual loans. Prudent management and administration of the overall loan account including establishment of sound lending and collection polices are the vital importance of the bank is to be continuously operated in an acceptable manner. Lending polices should be clearly defined and set forth in such a manner as to provide effective supervision by the directors and senior offices. The boards of directors of every bank has the legal responsibility to formulate lending polices and to supervise their implementation. Therefore the examiner should courage established and maintenance of written up to date lending polices which have been approved by the board of directors .A lending policy should not be a static document, but must be reviewed periodically and revised in light of changing circumstances surrounding the borrowing needs of the bank's customers as well as changes that may occur within the bank itself. To a large extent, the economy of the community served by the bank dictates the composition of the loan portfolio.

The widely divergent circumstances of regional economies and the considerable variance in characteristics of individual loans preclude establishment of standard or universal lending polices. However, certain broad areas of consideration and concern that should be addressed in the lending policies of all banks regardless of size or location. General fields of lending in which the bank will engage and the kinds or types of loans within each general field (Federal Deposit Insurance Corporation,2014).

- Lending authority of each loan officer.
- Lending authority of loan or executive committee, if any.
- Responsibility of the board of directors in reviewing, ratifying or approval loans.
- Guidelines under which unsecured loans will be granted.
- Guidelines for rates of interest and the terms or repayment for secured and unsecured.
- Limitations on the amount advanced in relation to the value of the collateral and the documentation required by the bank for each types of secured loan.
- Guidelines for obtaining and reviewing real estate appraisals as well as for ordering reappraisals, when needed.

This section shows why portfolio credit risk instead of default risk can be auxiliary in optimizing bank lending policy. Estimating individual defaults risks is merely of limited help, because the individual risks linkage with aggregate credit losses in unclear. A better way to measure risk is to weight individual defaults risks by value, as one does, for example, in the calculation of Var . Studying VaR not only enables the financial institution to get a measure of the credit risk present in currently administered loans. It also allows for an evaluation of the impact of different lending policies on(a specific measure of)risk exposure and creates a better basis for an explicit decision on the implied loss rate. Hence we drive a Var measure using Monte-Carlo simulation of the bivariate probit model a section. After that, we show how it can be applied to a typical problem that a lending institution is confronted with when supplying loans.(Jacobson,2003).

In the banking history of Nepal, Nepal Bank Limited is the first bank of Nepal which was established in 1994 B.S. After that, Nepal Rastra Bank, RastriyaBanijya Bank, Agriculture Development Bank and Nepal Industrial Development Bank were established. Financial institutions are any organization/ institution which is engaged in any type of financial activities. It is classified as banking financial institution and non-banking financial institution. Some of the financial institutions which are practiced in Nepal are finance companies, Employees Provident Fund, Insurance companies and other financial institution such as:- commercial bank, development bank, corporative finance companies, postal saving plan, unit trust, investment companies etc.

The establishment of the “TejarathAdda” during the tenure of the Prime Minister Rannodip Singh in the year 1877 A.D played a vital role in the banking system. It helped the public by providing credit facilities at a very low rate of 5%. It provided credit especially on collateral of gold and silver. Thus, it can be regarded as the foundation stone of banking in Nepal. Banking in true sense started with the inception of Nepal Bank Ltd. On November15th 1937A.D. It had Herculean responsibility of attracting people toward banking sectors from predominant non institutional transactions as well as introducing other banking services. Nepal Rastra Bank i.e Central Bank of Nepal was established in 1956 A.D as fully owned government bank .After adopting liberal economic policy in Nepal, many joint ventures banks are established under the rules of Nepal Rastra Bank. The inception of Nepal Arab Bank Ltd in 1984 A.D as the first joint venture bank proved to be the milestone in the history of banking since, than many commercial banks have been established.

1.1.1 Brief Introduction of Sample Banks.

Out of the 28 commercials banks only three commercials banks are taken as sample banks.

A) Global IME Bank Ltd.

Global IME Bank Ltd (GIBL) emerged after the successful merger of Global Bank Ltd, IME Financial Institution and Lord Buddha Finance Ltd in year 2012. Further two more development banks Social Development Bank and GulmiBikas Bank merged with Global IME Bank Ltd in 2013 and in the year 2014 Global IME Bank Ltd. merged with Commerz and Trust Bank Ltd.Global Bank was established in 2007 in as an ‘A’ class commercial bank in Nepal with the entire banking services. The bank came into existence with the largest capital at that time i.e paid up capital of NPR 1.0 billion and its paid up capital has been increased to NPR 6.16 billion. It is in line with aim of the bank to be “ The Bank For All” by providing all necessary economy through world class banking service. Bank has utilized advance computerization technique in its operations. For the day to day operations, bank has been using renowned FINACLE software. The bank has been handling government transactions of various offices. The bank has 89 branches, 6 extension counters and 10 revenue collection counters throughout Nepal. The bank also operates 94 ATMS throughout the country. The Authorized Capital GIBL is NPR 10,000 million and Paid up Capital is NPR 6164. 27 million .The bank has been awarded as “The Bank of the year 2014”.

Global IME Bank Ltd. undertakes the following activities and services.

- Mobile Banking and online banking
- Credit card facilities
- SWIFT, Demand drafts
- Deposit lockers
- Atm
- International Trade and Bank Guarantee etc.

B) Century Commercial Bank Ltd.

Century Commercial Bank Ltd. was established in January 23, 2011 with the motto of providing simplified banking services. CCBL aims to extend its reach to the unbanked population of the country and is driven by the mission of “Simplified banking for all”. Bank has utilized advance computerization technique in its operations.The bank has 31 branches, 2 extension counter, 11 branchless banking and 28 ATMs across the country though being driven by the mission of simplified banking it offers a wide range of banking products in deposit as well as lending and other banking services i.e internet and mobile banking. More than 300 staffs and above 100000 customers comprises in Banks team. Bank basically focus on providing the suitable as well as sustainable business practice and most importantly the consistent growth that is sustainable and profitable to all shareholders. The Authorized capital of Century Commercial Bank Ltd is NPR 5000 million and Paid up capital NPR 2120 million.

Century Commercial Bank Ltd. undertakes the following activities and services.

- Mobile Banking and online banking
- Credit card facilities
- SWIFT, Demand drafts
- Deposit lockers
- Atm
- International Trade and Bank Guarantee etc.

C) Prime Commercial Bank Ltd.

Prime Commercial Bank Ltd. was established in September 2007 as the 21st commercial bank in Nepal. Bank is categorized ‘A’ class financial Institution registered under the “Banks and Financial Institutions Act” of Nepal. It was established with the Prime objective of providing “Banking services to Everyone” in the country where people are still deprived of Banking Services. It was incorporated by the prominent business personnel and professionals.With objective of providing banking service to everyone the bank has itself emerged as player in financial sector with focus in customer service excellence maintaining excellent relationship with valued customers. It is counted among the top 10 commercial banks in Nepal by independent raters and publications in the country. The bank has 32 branches, 25ATMs across the country though being driven by the mission of banking services to everyone. The Authorized Capital GIBL is NPR 5,000 million and Paid up Capital is NPR 3140.06 million.

Prime Commercial Bank Ltd. undertakes the following activities and services.

- Mobile Banking and online banking
- Credit card facilities
- SWIFT, Demand drafts
- Deposit lockers
- ATM
- International Trade and Bank Guarantee etc.

1.2 Focus of the Study

The research on the related topic is the tremendous value to provide the feedback to the policymakers. Without banking, the development of nation is a mere thought. Banks have today gained paramount trust of the public. In order to make the right decision we should have a sound investment policy. The financial institutions of all classes ‘A’ to ‘D’ are increasing every year and there is a trend of banks merger. It is a question of great concern as to how many banks are surviving and reaping profit. The concern is not only about these days but also about the sustainability of the operating banks in the future days also. The study is mainly focused on the investment policy by making a comparison between Global IME Bank Ltd., Century Commercial Bank Ltd. and Prime Commercial Bank Ltd. The study focuses on evaluating the deposit utilization of the bank in terms of loans and advances and investment and its contribution in the profitability of the bank. The main focus of the study is to highlight the investment polices of commercial banks with the expectation that the study can bridge the gap between deposits and investments. On the other hand, the study would provide information to management of the bank that would help them to take corrective actions.

1.3 Statement of the Problems

The rate of investment in Nepal is very low. The main causes behind it are political instability low investor's confidence, and lack of knowledge on investment management, lack of improved prospectus to investors, restriction on foreign portfolio investment in Nepal etc. Besides, granting loans against insufficient deposits, overvaluation of the good pledged, land and building mortgaged, risk averting decisions regarding loan recovery and negligence in recovery of overdue loans are also drawbacks of sound investment policy. Commercial banks have to face tough competition due to limited and narrow capital market and investment opportunities. They are not been able to formulate their investment policy in an organized manner. They rely on instructions and guidelines of Nepal Rastra Bank. They are found to be more interested in investing in risky and highly liquid sector i.e treasury bills and other securities. In, Nepal every commercial bank has invested in the similar sectors. These major sectors include tourism, garments and trading as well. But given the current situation of the country,it is not up to them to decide in which sector they want to invest. The main factor for success of any organization is the secured situation. Once the economic and political situation is stabilized, then only commercials banks are consider rationally as to where they should invest and grow. Till then it is a question of moving into sectors as and when things develop. So, security problem is the big problem for every commercial bank to invest their funds in any sectors.

Pradhan (1996) published an article for deposit mobilization,its problem and prospects which examined that deposits are the life blood of any financial institution. Shrestha (1998) stated that lending operation of commercial bank in Nepal and its impact of GDP which helped to examine the investment planning of commercial banks. Ghimire (1999) published and article which mentioned that commercial banks are ready to pay penalty instead of investing in rural areas, deprived sectors etc. Pradhan (2002) stated that saving is income not consumed which explained that saving as the main source of investment. It also explained the role of saving investment and capital formation in economic development.Ojha (2002) conducted the study on lending practices of commercial banks which measures the lending strengths, lending performances and quality etc. Poudel (2002) stated that liquidity and investment position of joint venture commercial banks in Nepal which made and attempt to evaluate the liquidity position of joint venture banks. Raya (2003) conducted the study on an investment policy and analysis of commercial banks which defines the fund mobilization and investment on fee based off balance sheet. Shrestha (2003) stated that investment analysis of commercial banks which evaluate the relationship between investment and deposits of the bank. Shrestha (2004) conducted a study on investment planning of commercial banks in Nepal. Joshi (2005) conducted a study on investment of policy of commercial Banks in Nepal which basically studied the liquidity, efficiency, profitability and risk position of commercial banks. Dhungel (2007) conducted a study on investment policy of commercial bank. Poudel (2008) conducted a study on investment policy of RBB. The main objective of this study is whether the banks are following the suitable policy dividend policy or not. Smith (1974) conducted a study on investment practice of commercial bank in Nepal. The main objectives of the study is to measure the financial transactions.

Besides all this review the study basically focused on the investment policy of three commercial banks by making a comparison study between the investment policy as well as deposit utilization of the bank in terms of loan and advances and investment and its contribution in the profitability of bank.The study mainly focuses on analyzing the different aspects of the bank and finding the answers to questions such as:

- Is the bank able to utilize the available funds effectively?
- What is the proportion of the bank's investment on priority sectors?
- How far is Global IME Bank Ltd, Century Commercial Bank Ltd. and Prime Commercial Bank Ltd. have been able to mobilize their resources?
- What its the proportion on risk free and risky investment on total investment made by the bank?
- What are the comparative positions of three banks in terms of liquidity, leverage, capital adequacy and profitability ratio?
- What steps should be taken to improve the investment policy of the bank?

- Is the bank maintaining sufficient liquidity position?
- How aggressively is the bank lending?

1.4 Objectives of the Study

The main objective of the study is to examine lending and investmentpractices of commercial banks in Nepal. The specific objectives of the study are as under.

- To evaluate the loan and advances management in Global Ime Bank Ltd., Prime Bank Ltd., Century Bank Ltd.
- To assess the bank's investment and its effect on commercial banks in Nepal.
- To examine the growth rate of banks in terms of deposit, loans and advances, investment and profitability of the banks.

1.5 Significance of the Study

Commercial banks affect the economic condition of the whole country. The study is made to highlight the investment policy of commercial banks. This helps to bridge the gap between deposits and investment policies. The study will help the management of Global IME Bank Ltd. Century Commercial Bank Ltd. and Prime Commercial Bank Ltd. to improve their performance and to take the corrective action if necessary.In Nepal there are very few resources, which have been made in the area of investment policy of commercial banks. Investment policy is one of the essential and the main function where the banking business is related. There are various problems in effective investment of commercial banks of Nepal, which affect their performance to the great extent. CB's performance doesn't seem satisfactory in terms of utilizing its resources efficiently in productive sectors. Hence, the main significance of this study of investment portfolio analysis of Nepalese commercial banks is to help how to minimize return of through portfolio analysis. Similarly, the study of commercial banks, investment trend, risk return pattern, portfolio management, credit management and effect on investment decision on earning will strive to disclose the internal weakness of the banks and furnish the ideas for improvement. The research will provide require information to various people and parties such as general reader, investors, shareholders, brokers, financial agencies, businessman, depositors, customers etc. The study will be to use as a pilot work for future research.

1.6 Limitation of the Study

The time and the resource constraints have limited the in-depth study. Besides, following are the limitations of the study.

- The study is based on secondary data so, the accuracy of the results and conclusions highly depend upon the reliability of the data.
- The study has covered only six fiscal years from 2011/12 to 2016/17 and this study doesn't represent performance of sample banks before study period.
- This study examines the investment policy of the bank and do not incorporate other aspects for comparison.
- The study covers only three banks are taken as a sample for comparison. It cannot be generalized for the entire industry.

1.7 Organization of the Study

This study has been divided into five chapters and they are as follows.

Chapter - I: Introduction

The first chapter covers the Introduction such as Background of the Study, Focus of the Study, Statement of Problem, Objective of the Study, Significant of the Study, Limitation of the Study and Organization of the Study.

Chapter - II: Review of Literature

The second chapter deals about the Review of Literature which includes Conceptual Review, Review of Previous Thesis and Basis Feature of this Research.

Chapter - III: Research Methodology

The third chapter includes Research Methodology with Research Design, Sources of Data, Population and Sample, Data Collection Method and Data Analysis Tools.

Chapter - IV: Data Presentation and Analysis

The fourth chapter Data Presentation and Analysis includes the details like investment policy of commercial banks & major Findings.

Chapter - V: Summary, Conclusion and Recommendation

Last chapter includes the Summary, Conclusion and Recommendation of the study is presented and at the last bibliography and appendix is also included.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. A critical review of literature helps the researcher to develop through understanding and insight into previous research works that relates to the present study. It avoids needless duplication of the costly research effort. This chapter will be divided under two parts theoretical review and research review.Theoretical review will be based on the study of theories of investment policy, important terms of investment, review of related empirical works. Likewise, research reviews includes articles, related studies and various legislative provision etc. After learning these reviews, the researcher can find out the gaping from the past research that has to be fulfilled by the present research works. The gaping between the old research and new research work will be focused and filled up based on the given objectives and limitations in this research in the unique way (Weston and Brigham, 1996).

2.1 Some Important Terms

The study in this section comprises of some important terms of banking which are given below:

2.1.1. Loan and Advances

This is the primary source of income and most profitable asset to a bank. Funds borrowed from the bank are much cheaper than those borrowed from unorganized moneylenders. Commercial banks hardly lend money for a longer period of time. It lends for the short time period that can be collected in a short period of time. Loans and advances are provided against some collateral of the borrower. In addition to this, some portion of loan, advances and overdraft includes that among which is given to staffs of the bank for house loan, vehicle loan, personal loan and others.

2.1.2 Deposits

It is the important source of liquidity collected from general public, business and other government agencies. It is direct claim of outsiders in the bank. The total assets of banks are financed by more than 75% from the deposits. Bank's deposits are the amount it owes to its customers. A minimum balance is fixed for the depositors. Nepalese commercial banks have introduced different type of deposit account. Deposits are categorized under:

- Current Deposit
- Saving Deposit
- Fixed Deposit

2.1.3 Investment on Government Securities, Shares and Debentures

It is treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities bond and share for several reasons. It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate. It includes holding of short-term government bonds like treasury bills, development bonds and other securities purchased in the open market and readily converted into cash. These security bears low risk, low return but higher liquidity.

2.1.4 Investment on Other Company's Share and Debentures.

Commercial banks invest their excess funds in the shares and debentures of each other companies. They generally invest when there is no alternative opportunity to make investment in the profitable sector. For example, most of the Nepalese commercial banks feel convenient to invest in the rural development bank's share as this complies both with NRB regulations for priority sector lending and also they get moderate return from them (Van Horne, 2004). Nowadays, the commercial banks of Nepal have purchased shares and debentures of regional development banks, NIDC and other development banks etc. These types of investment are made of their income generating power and for other advantages.

2.2 Principles of Sound Lending and Investment Policy

Some of the Principles of sound lending and investment policies which the banks have to keep in mind are mentioned below:

2.2.1 Safety and Security

While selecting the sectors for investing the funds a bank should be very much conscious regarding the safety and security its funds. It should invest in securities, which are too volatile because a little difference may cause a great loss. Similarly, the businessman who is expected to be bankrupt at once or earn a million in a minute should not be financed at all. The banks must invest its fund in legal securities only. The bank should accept those types of securities, which have marketability, ascertain ability, stability and transferability and it also should accept those securities, which are commercial, durable and of high market prices. For the safety and security in investment portfolio tools also.

2.2.2 Liquidity

Liquidity generally refers to cash or any assets that can be converted into cash immediately. Generally, people deposit money in the bank under different account with confidence that 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 the meet the current or short-term obligation when they due to repayment. Liquidity is the capacity of bank to pay cash against deposits. Hence, the liquidity position of a bank is such an important factor.

2.2.3 Profitability

Commercial banks invest on those sectors from where more and more return can flow, through maximizing the returns on its investment; bank can maximize the volume of wealth. Hence, the investment of granting loans and advances by them are highly influenced by the profit margin. Generally, the profit of commercial bank depend upon the interest rate of the interest rate of the bank, volume of loan provided, time period of loan nature of investment on different securities. Profitability is only the term which always motivated commercial banks to invest its money more and more.

2.2.4 Suitability

A banker should always know why a customer is in need of a loan. If a borrower misuses the loan granted by the bank, he will never be able to repay the loan and bank will possess heavy bad debts. Therefore, in order to avoid such circumstances advances should be allowed to select a suitable borrowers and it should demand all the essential detailed information about the scheme of the project. Bank must keep in mind the overall development plans of the nation and the credit policy of the bank.

2.2.5 Diversification

The bank should be careful that while granting loan; it should not be invested in one sector only. To minimize risk and maximize profit, a bank must be diversify its investment on different sectors. Diversification of loan helps to sustain losses. Because if securities of a company is deprived, there may be appreciation in the securities of other companies. In this way, the loss can be recovered.

2.3 Sources of funds for the Investment

There are different sources of funds for the investment of the bank.

2.3.1 Capital

Capital is the lifeblood of the trade and commerce. Capital is needed for the operation of the bank as in other business. But, it is only a nominal source. Still it can be used for the investment purpose. The capital fund consists of two elements like

1. Shares

These are the sources of fund to invest. By increasing the issue of share, the bank can increase its capital.

2. General Reserve

The bank is required to assign certain percentage of the reserve. This reserve is also invested.

2.3.2 Accumulated profit

When there is a need to more funds for investment, the bank can retain the accumulated profit. The bank invests its accumulated profit.

2.3.3 Deposits

Deposits are the main source of funds. By providing certain rate of interest, commercial banks call for the deposit from the customer. Mainly, banks accept three types of deposits i.e current deposit, fixed deposit and saving deposits. These different types of deposits are used for lending the money to different sectors like agriculture, productive work, trade, irrigation and industry. The deposits will lead to increase in the working capital of the bank.

2.3.4 External and Internal Borrowings

The funds can be collected by borrowings money through different banks or different institutions. In developing country like Nepal, borrowing is very important. The commercial bank may not have sufficient fund to invest in different sector. In that case it has to borrow from other bank or other organization or institution. Generally the commercial bank borrows from two e i. external and internal. External borrowing means the borrowing from the foreign banks, and government. Internally, the commercial bank borrows mainly from Nepal Rastra Bank. So, the commercial bank cannot provide loan or investment without the funds. from the above different source of fund the commercial bank grants loan.

2.4 Review of Legislative Provision

Legislative environment has a significant impact on the establishment of commercial banks, their mobilization and utilization of resources. All the commercial banks have to conform to the legislative provision formulated to facilitate the smooth running of commercial banks. Financial legislation and regulation need to be sufficiently flexible to accommodate the rapid pace of development in the financial sectors

The investment policies of the banks are conditioned to great extent by the national policy framework. Every banker has to apply his own judgments for arriving at a credit decision, keeping of his banker's credit policy in mind. (Richard, 1984).

2.4.1 Nepal Rastra Bank Directives

NRB is the apex institution in the money and capital market. It the central bank of the nation that directs, supervises and controls the function of commercial banks and other financial institutions. NRB has issued various directives in order to develop healthy, competitive and secured banking and economic system.

2.4.2. Directives regarding Interest Rates Spread

The interest rate spread, the difference between interest charged on loan and advances and the interest paid to the depositors has widened significantly. This has caused lower financial intermediation. Therefore, NRB has required commercial banks to limit interest rate spread between deposit and lending rates to a maximum extent of 5%. NRB has provided commercial banks with the new calculation method of interest spread for a certain period recently.

2.4.3 Provisions for investment in the deprived sectors

Some rules, which are formulated by NRB, affect the areas of credit and investment extension to deprived sectors by the commercial banks. Accordingly to the provision, with effect from 3rd quarter of FY 1995/96, investment in shares of the rural development bank by CBs, which used to be counted for the priority sector lending, now is to be included under the deprived sector lending.

According to the provision effective from FY 1997/98 NBL, RBB, NABIL, NIBL are required to invest 3%; HBL, NSBL, NBBL, EBL are required to invest 2%. Bank of Kathmandu is required to invest 1.75%; NCBL is required to invest 0.75% while new commercial banks are to invest 0.25% of their total loan and advances to deprived sector.

2.4.4Provision for credit to the priority sector

With the objective of mitigating the unemployment, poverty, economic inequality and thus upgrading the deprived and low-income people, the project of national development and priority sector lending has been categorized as priority sector loan. With a view to make credit available to small agricultural, industrial and service sector and promote income at employment opportunities, NRB has directed the commercial banks to extent at least 12% of their total outstanding loans to the priority sector (Shrestha 2004).

Commercial banks credit to the deprived sector is also a part of priority sector. Under priority sector, credit to agriculture, cottage and small industries and credit to the service are counted commercials banks loan to provide the co-operatives licensed by NRB be is also to computed as the priority sector credit from the FY 1995/96 onwards.

2.4.5 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 total credit to the productive sectors. Loans to priority sector, agriculture sector and industrial sector have to be included in productive sector investment.

2.4.6 Provision for the Single Borrower Credit Limit

With the objectives of lowering the risk of over concentration of bank loans to a few borrowers and also to increase the access of small and middle borrower to the bank loan, NRB directed CBs to set an upper limit on the amount of loan financed to an individual, firm, company or groups of companies. Accordingly to his, CBs are required not to exceed the single borrower limit of 35% in the case of fund-based credit and 50% in the case of non-fund-based credit such as letter of credit, guarantee, acceptance of letter and commitment.Likewise, in the case of consortium financing, commercial banks are permitted to extend an additional 10% credit above the limit fixed by the NRB as before. In the addition, Nepal Oil-corporation, agriculture-inputs corporation and Nepal Food Corporation for their imports of petrol, diesel, kerosene, fertilizer and foodstuff have been removed from the restrictions of single borrower limit.

2.4.7 Provision for Minimization of Liquidity Risk.

Commercial banks are required to monitor their liquidity risk. This is to minimize risk internet in the activities and portfolio of the banks. According to the regulations, a gap found between maturing assets and maturity assets and maturing liabilities is the liquidity risk. They are monitoring their assets and liabilities on the basis of maturity period. Maturity period such as 0-90, 91-180, 1818-270, 271-365 days and above year are classified for the purpose of checking.

2.4.8 Cash Reserve Requirements (CRR)

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

2.4.9 Loan Classification and Loss Provision

With the view of improving the quality of assets of commercial banks NRB has directed commercial banks to classify their outstanding loan and advances, investment, and other assets into six categories. The classification is done in two days. The loans of more than one lakh are to be classified as debt service ratio, repayment situation, and financial condition of borrower, management efficiency, and quality of collateral. The loans of less than one lakh have to be classified as per maturity period.

2.5 Review of Related Studies

2.5.1 Review of Journal & Articles

Pradhan (2011) presented a short glimpse on investment in different sector, its problem and prospects through his article "Deposit Mobilization, its Problem and Prospects". This study has expressed that, deposit is the life blood of any financial institution, and be it commercial bank, finance company, co-operative or non-government organization. The study added, "In consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector.

Ghimire (2012) published article titled “Credit Sector Reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification of loan loss provisioning. “Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what is a common are most of the bank is the increased size of non-performing-assets (NPAs). To resolve the problem of the loan losses or likely losses of this nature facing the industry NRB has as the central bank amended several directives and issued many new circulars in the recent years”.

Bajracharya (2013) published article, “Monetary Policy and Deposit Mobilization in Nepal” concludes that the mobilization of domestic saving is one of the Prime objectives of the monetary policy in Nepal and for this purpose commercial banks are the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the economy.

Shrestha (2014) Deputy Chief officer of NRB Banking Operation Department, has given a short glimpse on the, “Portfolio Management in Commercial Banks, Theory and Practice”. Shrestha emphasis issue in the article the portfolio management becomes very important both the individual and the institutional investors. Economic efficient and effective investment mix, Higher return which is comparable with alternative opportunities available according to the risk class investors, Maximum tax concession, Good liquidity with adequate safety of investment,

Montecillo (2015) published article "Bank’s Nonperforming Loans down in June". Bad loans held by major banks decreased in June despite the continued rise in lending to support the country’s growing economy, data released this week showed. In a statement, the Bangko Central Filipinas said nonperforming loans (NPL) held by universal and commercial banks declined at the end of June from the May level. “The latest NPL figures indicate the banks’ continued efforts to adhere to sound credit risk management systems and maintain high loan quality,” the BSP said, commenting on the data. The NPLs-to-total loans ratio at the end of June declined to 2.68 percent from 2.75 percent in May and 3.01 percent in June 2012.

2.5.2 Review of Previous Research Works

Khadka (2011) carried out a research work on the topic “Analysis of Investment Policy of Commercial Bank of Nepal”. The main objective of the present study is to analyze the liquidity position as well as theinvestment policy adopted by NBBL, HBL and NABILand comparison of such betweenthemselves. Presently the bankers are facing a huge tension of liquidity and this is not agood signal toward the performance of the banks. The study focuses whether it isbackward or forward in investing its fund efficiently in industry average.

Thespecificobjectives of the study were as follows:

- To evaluate the liquidity, assets management, efficiency and profitability of HBL,NBBL and NABIL
- To analyze the deposit utilization trend of the HBL, NBBL and NABIL.
- To analyze the relationship between total investment with other financialvariables of HBL, NBBL and NABILand comparison between them.
- To recommend the package of workable suggestions and possible guidelines toimprove investment policy of HBL, NBBL and NABILbased on the finding ofthe study.

Based on this study, the major findings were:

- The mean ratio & CV of current ratio of NABILis satisfactory. Only theNABILseems capable of paying current obligations. The ratio of HBLseems improving but the NBBL ' trend is deteriorating.
- The mean ratio of loan & advances to total deposit of NBBL is higher.HBL seems to be more stable than others. Large proportion of totaldeposit of NBBL has been utilized on loans & advances than HBL &NABIL.
- The growth ratio of loans and advances of NBBL is higher. HBL has takensecond position and NABILhas least with greater instability. The ratiosare in fluctuating trend. NBBL in stronger in increasing loan andadvances.

Katuwal (2012) carried out a research work on “Mobilization of Deposit and Investment ofEBL Bank Limited”. The purpose of the study will be to examine the relationship between the amountof total deposit and amount of total credit granted by EBL.

The main objectives of the study were:

- To examine how far the interest rates of deposits have positive relationshipwith the deposit collection of EBL Bank.
- To see the impact of interest rate of loan on the credit extended by EBLBank.
- To study the increasing and decreasing trend of deposit mobilization ofEBL Bank.
- To compare the performance of deposit and investment of EBL.

The major findings of this study were:

- The analysis reveals that the banks attraction toward saving deposit seems tobe satisfactory. But it is not stable increasing in percentage during the studyperiod. It is continuous to increasing in the last of the study period.
- The changes in percentage in all deposits are in increasing trend. But last ofthe study period it is little fluctuate.The analysis reveals that the banks attraction towards total deposit seems tobe satisfactory. Though the percentage changes are not stable, the change inratio is in average.In case of percentage change in credit amount, the bank's attraction towardscredit amount is satisfactory.
- The growth ratio of total deposit of EBL by analysis of 15 years period is13.48%. It means the bank is able to maintain 13.48% growth rate. This ratiomeasures the capacity of the bank to maintain the percentage of total deposit.Since the growth ratio of total deposit is 13.48%, the bank must improve itsdeposit collection in high growth ratio.Similarly the growth ratio of total credit is 17%. So, the bank seems in strongcondition to increase the total credit than the total deposit growth rate.
- The total deposit has found in increasing trend. The total deposit of EBLwill be Rs. 17544.74 lakhs in the 2012, if other things remains same.Similarly the credit also found in increasing trend. The amount of total credit will be Rs. 10408.03 lakhs in 2012.if other factors remains the constant.

Maharjan (2013) carried out a research work on “Deposit Mobilization of Commercial Banks in Nepal”.The main source of commercial banks is collecting deposit from public who don’t need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.The objective of the study has been to examine relationship between the amount of total deposit and amount of total credit granted by the commercial banks.

The main objectives of the study are:

- To analyze the relationship between deposits and loans & advances.
- The effectiveness of deposit mobilization of commercial banks.
- To examine how far the interest rates of deposits have positive relationship with the deposit collection of commercial banks.
- To see the impact of an interest rates of loan on the credit extended by commercial banks.
- To provide suggestions and recommendations to the concerned for the further improvement.

Based on the study major finds are:

- The ratios of the banks are found to be in fluctuating.
- The Total Investment to Total Deposit ratio of HBL is 37.76 percent in an average and SBL is 9.11 percent in an average as well as NBL has 37.04 percent in an average and SCBNL has 53.79 percent in an average. The ratios of the banks are found to be in fluctuating.
- The S.D as well as the C.V. for HBL, SBL, NBL and SCBNL are respectively.
- The Investment on Shares and Debentures to Total Working Fund ratio of HBL and SBL.
- The calculation of correlation coefficient between deposit and loan and advance is 0.96, shows the positive correlation for HBL, SBL has the perfectively positive correlation, NBL has positive correlation coefficient and SCBNL has also positive correlation coefficient which is 0.828 between deposit and loan and advance.

Tamang (2014) carried out a research work on the topic “Mobilization of Deposit & Investment of Nabil Bank Limited” The major objective of the study is to analyze the deposit and investment position of NABIL bank.

The other specific objectives were as follows:

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

The major findings of this study are as follows:

- The current deposit, saving deposit, and margin deposit are in fluctuating trend over the study period and the call deposit and fixed deposit are in increasing trend over the study period.
- The total deposit of NABIL is in increasing. The total deposit is Rs. 19347.39 million and then increase by 20.65% in the fiscal year 2067/68.
- In average 100% of thedeposited amount has been succeeded to mobilize the resources. The highest ratio is 104.92 and lowest ratio is 98.09. the amount of cash in bank and its positionin total deposited amount is increasing each year.
- Growth ratio of total deposit of NABIL during the period of study is 24%. So, it can be said that NABIL has the satisfactory position in term of collection deposit. Growth ratio of total credit is 25% under the period of study which is high in compared to the growth ratio of total deposit i.e. 24%. It shows that the bank is highly utilizing the collected deposit as per the growth of total deposit. The growth ratio of total investment is 22% under the period of study which is low in compared to the growth ratio of total deposit and credit.

Maharjan (2015)conducted a study on “Investment Policy of Commercial Bank of Nepal” acomparative study of EBL with NABIL Bank and BOKL.

The major objectives were as follows:

- To examine the liquidity assets management and profitability position and investment policyof EBL in comparison to NABIL and BOKL.
- To analyze the relationship between loan and advance and total investment with otherfinancial variable of EBL and compare with NABIL and BOKL.
- To study the various risks in investment of EBL in comparison to NABIL and BOKL.

Majors findings of the study research are:

NABIL has higher idle cash and bank balance. It may decrease profit of bank.It is good to invest more on share & debentures as it encourage financial and economicdevelopment of the country.

- A commercial bank must mobilize its fund in different sectorsuch as to purchase share & debentures of other financial and non financial companies outof total working fund. NABIL has invested its more of the funds i.e. total investment on totaldeposit ratio, in comparison to other commercial banks but percentage of investment onshare and debenture in very nominal.
- Portfolio condition of a bank should be regularly revised from the time to time. It shouldalways try to maintain the equilibrium in the portfolio condition of the bank. So it can besaid “all eggs should not be kept in the same basket”. The bank should make continuouseffort to explore new, competitive and high yielding investment opportunities to optimizetheir investment portfolio.
- NABIL has to make way for small depositors and entrepreneurs for the promotion andmobilization of small investor’s fund.
- On the basis of above facts, it is seen that NABIL has invested much of its fund in total outsideassets but it has not achieved the desired result.
- The risk taken by NABIL, from the angle of credit and capital are in an average whereas theconsistencies of the same are highly volatile which may result higher loss. The bank shouldnot test those risks on an experiment basis as seen from the consistency angle.

Thapa (2016)conducted a research on the topic of "Acomparative study on Mobilization of Deposit of NepalBangladesh Bank Limited and other joint venture banks".

The major objectives were as follows:

- To analyze the relationship between Deposit on loan and advance and total investment with otherfinancial variable of NB bank and compare them with NABIL and NBL.
- To evaluate the liquidity, asset management efficiency, profitability and risk position of NBbank in comparison to NABIL and NBL.
- To study the various risks in deposit of NB bank in comparison to NABIL and NBL.

Majors findings of the research are:

- NB bank has good deposit collections, it has better liquidity position.
- It has made enough loan and advances but it has the negligible amount of investment ingovernment securities.
- Credit risk ratio, interest risk ratio, capital risk ratio and profitability position of NB bankis comparatively worse than NABIL and NBL.
- There is significant relationship between deposit and loan and advance, outside assets andnet profit of NB bank.

2.6 Research Gap

Research gap refers to the gap between previous research and this research. Many research studies have been conducted by the different students, experts and researcher about Deposit Mobilization.In the condition of research process the study found that no one has done deep analysis of lending & investment practices. Previous researchers were either on the problem or prospects of commercial banks. But some researchers have covered both problems and prospects of commercial bank. Most of researcher was done in vast way. Some researcher covered all the commercial banks and some were either in comparison study between commercial banks or study of commercial banks. But this study is focused on a particular sample bank. This study has covered both the problems as well as remedies oflending & investment practices of sample bank.This study is specific in order to analyses and explain the present pattern of increasing trends of deposit in the bank although interest rate continuously decreasing.

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to investment policy of commercial banks. The review of previous studies has contributed a lot to enhance the fundamental understanding and knowledge, which is required to make this research meaningful and purposeful. In some previous studies, some statistical tools like correlation; probable error has not been used. This study tries to define the effectiveness of investment policy of Global IME Bank Ltd., Century Commercial Bank Ltd. and Prime Commercial Bank Ltd., by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio risk management ratio as well as different statistical tools like coefficient of correlation, trend analysis and hypothesis. It is clear that the reference of new research cannot be found on the exact topic i.e Investment Analysis of Commercials Banks in Nepal. Therefore to complete this research, many books, journals, articles, and various published and unpublished dissertation and field opinion are followed as guideline to make the research easier and smooth through the reference materials. The researcher can find out the gaping from the past research that has be fulfilled by the present research work. In this regard, the researcher that has to be fulfilled by the present research work. In this regard, the researcher is going to analyze the different policy in this topic. The gaping between the old and the new research work will be focused and filled up based on the objectives and limitations of this research.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objectives in view. It is the systematic way of solving a problem. Research methodology refers to the overall research process, which a researcher conducts during his/her study, if all the procedures from the theoretical foundation to be collection and analysis of data. As most the data are quantitative, the research is based on scientific models. It is composed of both the parts of technical aspects and logical aspects. On the basis of historical data, research is systematic and organizational effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Hence, the entire process by which we attempt to solve the problem is called research (Kothari, 1990).

The main objective of this research to analyze, examine and interpret the lending and investment procedure of private owned commercials banks with the help of various financial statements, statistical tools and non-financial subject matters. It also highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc. As the study intends to show the effectiveness of lending operation in a concern, it requires an appropriate research methodology (Wolff and Pant, 1999).

3.2 Research Design

Research design is a controlling part for the collection of the data and it helps to collect the accurate information, which is related to research topic. A true research design is basically concerned with various steps to collect the data for analysis draw a relevant conclusion. Research design is a plan structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance through the analysis of data (Kothari, 1990).

The first step of the research design is to collect necessary information and data concerning the study. Therefore research design means the definite procedure and techniques, which guide the study as profound ways of doing research.

This study has adopted the descriptive and analytical research design. The justification of the choice of these methods is preferred because it concludes reliable data and information covering long time and avoids numerical complex variables. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate the investment policy of the concerned bank.

3.3 Nature and Sources of Data

There are two sources of data collection: primary and secondary. Mainly, the study is the conducted on the basis of secondary data. The primary data have been collected through questionnaire, interview etc. The data required for the analysis are directly obtained from the balance sheet and the P/L account of the concerned bank's annual reports. These include annual reports for the last five years and report of each year. Supplementary data and information are collected from the number of institutions and regulating authorities like NRB, Economic survey and National Planning Commission etc. All the secondary data are complied, processed and tabulated in the time series as per the need and objectives. Formal and informal talks with the concerned authorities of the banks were also helpful to obtain the additional information of the related problem.

3.4 Population and Sample

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 bank that is selected for the study constitutes the sample for the study. This research work is designed with lending, operation and investmentpractice in Nepalese commercial banks. There are 28 commercial banks operating in the country which is the population of this research study. Out of this population, only 3 banks namely, Global IME Bank Ltd., Century Commercial Bank Ltd., Prime Commercial Bank Ltd. constitute the sample of the study on the base of convenient sampling method.

3.5 Method of Data Analysis

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. The analysis of the data will be done according to the pattern of the data available. Besides these some graphs, charts and tables have been presented to analyze and interpret the findings of the study. Likewise, some of the tools applied are as follows:

3.5.1 Financial Tools

It helps to analyze the financial strength and weakness of a firm. There are many ratios to analyze and interpret the financial statements. Tools like ratio analysis are used for financial analysis. Only those ratios that are related to the investment operation of the banks have been covered in this study. Financial ratios are the mathematical relationship between two accounting figures.

Ratio Analysis

Financial Ratio is the mathematical relationship between two accounting figures. "Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions." Thus, ratio analysis is used to compare a firm's financial performance and status to that of other firm's or to it over time. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.Therefore, there are many ratios; only those ratios have been covered in this study, which are related to the investment operation of the bank. This study contains following ratios.

(A) Liquidity Ratios

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

(I) Current Ratio

The current ratio shows the bank's short term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities, which can be presented as:

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

Higher ratio indicates the strong short term solvency position and vice versa. In another word, higher numbers are better, implying that the firm has a higher amount of current assets when compared to liabilities and should easily be able to pay off its short term debt.

(II) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as,

Cash and Bank Balance To Total Deposit Ratio $= \frac{\text{Cash \& } bank\ balance}{\text{Total Deposit}}$

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

(III) Investment on Government Securities to Current Asset Ratio

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

Investment on Govt. securities to total current assets ratio =

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

Here, Investment on government securities includes treasury bills and development bond etc.

(IV) Loan and Advances to Current Assets Ratio

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

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

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

(B) Asset Management Ratio

Asset management ratio measures how efficiently the bank manages the resources at its command. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following ratios are used under this asset management ratio relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

(I) Loan and Advances to Total Deposit Ratio

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

Loan and Advances to total deposit ratio $= \frac{\text{Loan } \& \; advances}{\text{Total Deposit}}$

(II) Total Investment to Total Deposit Ratio

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

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

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

(III) Loan and Advances to Working Fund Ratio

Loan and advance is the major component in the total working fund (total assets), which indicates the ability of bank to canalizes its deposits in the form of loan and advances to earn high return. This ratio is computed by dividing loan and advances by total working fund. This is stated as, Loan and Advances to Working Fund Ratio $= \frac{\text{Loan \& } advances}{\text{Total Working Fund}}$

Here, the denominator includes all assets of on balance sheet items. In other words, this includes current assets, loans for development banks and other miscellaneous assets but excludes off balance sheet items like letter of credit, letter of guarantee etc.

(IV) Investment on Government Securities to Total Working Fund ratio

This ratio shows that banks investment on government securities in comparison to the total working fund. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

Investment on Govt. Securities to Total Working Fund Ratio $= \frac{\text{Investment on Gov.Secur.}}{\text{Total Working Fund}}$

(V) Investment on Shares and Debenture to Total Working Fund Ratio

This ratio shows the banks investment in shares and debenture of the subsidiary and other companies. Dividing Investment on shares and shares and debentures by total working fund, which can be mentioned as, can derive this ratio,

Investment on Shares and Debenture to Total Working Fund Ratio =

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

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

(VI) Loan Loss Provision Ratio

This ratio shows the possibility of loan default of a bank. It indicates how efficiently it manages its loan and advances and makes efforts for loan recovery. Higher ratio implies higher portion of non-performing loan in total loan and advances. This can be stated as,

Loan Loss Provision Ratio $= \frac{\text{Total loss provision}}{\text{Total Loan and Advances}}$

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

(C) Profitability Ratios

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

(I) Return on Loan and Advances Ratio

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

Loan Loss Provision Ratio = $\frac{\text{Net Profit}}{\text{Loan and Advances}}$

(II) Return on Total Assets Ratio (ROA)

This ratio measures the overall profitability of all working fund i.e. total assets. This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as;

Return on Total Assets = $\frac{\text{Net Profit}}{\text{Total Assets}}$

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

(III) Return on Equity Ratio (ROE)

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

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

Here, total equity capital includes shares holder's reserve including P/L a/c and share capital i.e. ordinary share and preference share capital.

(IV) Total Interest Earned to Total Working Fund Ratio

This ratio is computed to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund is computed by dividing total interest earned by total working fund can be presented as:

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

(V) Total Interest Paid to Total Working Fund Ratio

This ratio depicts the percentage of interest paid on liabilities with respect to total working fund, which can be presented as:

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

(D) Risk Ratios

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

The following ratios are evaluated under this topic:

(I) Credit Risk Ratio

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

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan \& } Advance}{\text{Total Assets}}$$

(II) Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks make loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice verse. This ratio is calculated as below:

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

(E) Growth Ratios

To examine and analyze the expansion and growth of the banks business, following growth ratios are calculated in this study.

a) Growth ratio of Total Deposits
b) Growth ratio of Loan and Advances
c) Growth ratio of Total Investments
d) Growth ratio of Net Profit

3.5.2 Statistical Tools

To achieve the objective of this study, some statistical tools are used such as coefficient of correlation between different variables, trend analysis of important variable as well as hypothesis test (T-statistic), which are as follows:

- **Arithmetic Mean (X):**

An arithmetic mean is the average value or the sum of all the observation divided by the number of observation and it is given by the following formula:

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

Where,

$\bar{X}$ = Arithmetic mean

N = number of observations

$\sum X$ = Sum of observations

- **Standard Deviation (σ):**

Standard deviation is an important and widely used to measure dispersion. 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). It is calculated as:

$$\text{S.D. } (\sigma) = \sqrt{\frac{\Sigma(\bar{X} - X)^2}{n}}$$

Where,

σ = Standard deviation

n = No of the pairs of observations

- **Coefficient of Variation (CV):**

The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variable is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. So, C.V. is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as: Coefficient of variation (C.V) = $\frac{\sigma}{\bar{X}} \times 100$

Where,

X = Mean

σ = Standard Deviation

C.V. = Coefficient of Variation

- **Co-efficient of Correlation**

This analysis identifies and interprets the relationship between the two or more variables. In the case of highly correlation variables, the effect on one variable may have effect on other correlated variable. Among the various methods of finding coefficient of correlation, Karl Pearson's methods are applied in this study. The result of coefficient is always between +1 and -1, when r=+1, it means there is perfect relationship between two variables and vice versa. When r=0, it means there is no relationship between two variables. Karl Pearson's formula is :

$$\mathbf{r} = \frac{\mathbf{N}\sum dxdy - (\sum dx)(\sum dy)}{\sqrt{N\sum dx^2 - (\sum dx)^2}\sqrt{N\sum dy^2 - (\sum dy)^2}}$$

Where'

r = Coefficient of correlation

x = independent variable

y = dependent variable

N = no. of periods

Under this topic, Karl-Pearson's co-efficient of correlation has been used to find out the relationship between the following variables:

a) Co-efficient of correlation between deposit and loan and advances
b) Co-efficient of correlation between deposit and total investment

This tools analyze the relationship between these variables and help the bank to make appropriate policy regarding deposit collection, fund utilization and maximization profit.

- **Trend analysis**

This topic analyses the trend of deposits, loan and advances, investments and net profit of NIBL and the HBL and makes the forecast for the next five years.

a) Trend analysis of Total Deposits
b) Trend analysis of Loan and Advances

c) Total analysis of Total Investment

d) Trend analysis of Net Profit

The trend value of the related variable can be calculated as:

$y = a+bx$

where,

y = Dependent variable

x = Independent variable

a = Y intercept

b = Slope of the trend value

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

In this chapter, the data collected from the various sources as mentioned in the earlier chapter, have been filtered and only the data necessary for the analysis of the investment policy and analysis of the banks have been used. The analysis of available secondary data has also been conducted using various financial and statistical tools. Comparisons have also been made regarding calculated values.The analysis of various ratios and values has been presented in the numerous tabular forms for simplicity and easy understanding. Many figures have also been presented in this chapter. This chapter has basically been divided into two different parts, each dealing with a different aspect of data analysis.In the first part, the financial analysis of the three banks has been presented. The second part deals with the analysis of data using the statistical tools.

4.1 Financial Analysis

In this part of the data analysis, various financial tools have been used to evaluate and analyze the major financial performance related to fund mobilization and investment activities of the banks under study. That means not all but the only those financial ratios that are important for the analysis of the investments activities of the banks have been calculated here.

Before the calculation and tabulation of the financial ratios of the banks, a simple overview of the investments done by the banks as compared with their respective current assets has been presented. In the following tables 4.1, 4.2, 4.3, the amount of loans and advances, investment in government securities and investment in shares and debentures of the others companies of the three banks have been presented in the tabular format along with the percentage of such investments over the respective total working fund of the banks.

Table 4.1

Percentage of Various Investments to Total Working Fund of GBIME

(Rs. in Millions)

F/Y	Total Working Fund	Loans & Advances	%	Investment In Govt. Securities	%	Investment in Shares & Debentures	%	Total %
2011/12	29036.8	20296.50	69.89	3820.69	13.15	426.36	1.46	84.5
2012/13	36466.00	26212.29	71.88	5342.25	14.64	207.67	5.69	87.08
2013/14	57221.28	41777.65	73.01	8268.92	14.45	411.86	7.19	88.17
2014/15	66364.27	48936.96	73.73	10321.00	15.55	396.52	5.97	89.87
2015/16	79875.95	59219.29	74.13	17567.54	21.99	423.17	5.29	96.64
2016/17	110638.33	78965.10	71.37	15010.87	13.56	1223.93	1.10	86.03

Source:- Annual Report of GBIME (Details in Appendix 1)

In table 4.1, the various investments done by GBIME have been presented over six year study period. All the three types of investments of GBIME show an increasing trend throughout the study period. The total working fund shows an increasing trend. However, there has been substantial rises in the amount of Loans & advances and investment in government securities in the latest years of study as compared with the initial year of the study.

There however has been only a slight increase in shares and debentures of other companies in the latest year as compared with the initial year of study. The investment in share and debentures was 426.36 million in the initial year of study, and it increase to 1223.93 million in the latest year of study. GBIME has the maximum portion of total outside assets out of its total assets out of its total assets in the year 2016/17 where the percentage reaches as high as 96.64%.

Table 4.2

Percentage of Various Investments to Total Working Fund of PCBL

(Rs. in Millions)

F/Y	Total Working Fund	Loans & Advances	%	Investment In Govt. Securities	%	Investment in Shares & Debentures	%	Total %
2011/12	25996.12	18902.47	72.71	2004.42	16.86	16.5	0.09	89.66
2012/13	31288.13	21226.68	67.84	4871.46	18.07	23.50	0.37	86.28
2013/14	37293.44	27104.41	72.67	2936.01	13.94	23.50	0.27	86.88
2014/15	44876.18	32616.50	72.68	4914.32	10.52	828.75	0.24	83.44
`2015/16	53092.65	40272.09	75.85	3873.42	15.45	1196.77	0.23	91.53
2016/17	72879.19	57711.39	79.18	3845.92	10.87	2299.58	0.19	90.24

Source:- Annual Report of PCBL(Details in Appendix 1II)

Table 4.2 shows the various investments of PCBL over the study period as compared with its total assets. Both the total assets (total working fund) and loans & advance of PCBL shows an increasing trend throughout the study period. The investments in government securities also show an increasing trend. There also is a substantial increase in investment in share &debentures of other companied in the latest year compared with the first year of study. The percentage of total outside assets out of the total assets of PCBL is the highest in the year 2015/16 at 91.53%.

Table 4.3

Percentage of Various Investments to Total Working Fund of CCBL

(Rs. in Millions)

F/Y	Total Working Fund	Loans & Advances	%	Investment In Govt. Securities	%	Investment in Shares & Debentures	%	Total %
2011/12	5570.53	4159.72	74.67	552.97	9.92	42.5	0.76	85.35
2012/13	12079.53	8974.98	72.29	1613.97	13.51	671.17	0.55	91.35
2013/14	20287.79	14827.28	73.08	476.35	2.34	154.15	0.75	76.17
2014/15	27117.62	20093.13	74.09	2396.39	8.83	31.77	0.11	83.03
2015/16	32015.09	24767.95	77.36	945.24	2.95	254.88	0.79	81.11
2016/17	47720.45	38871.09	81.45	1302.57	2.72	714.03	1.49	85.66

Source: Annual Report of CCBL(Details in Appendix1III)

Table 4.3 shows the various investments of CCBL over the study period as compared with its total assets. The total assets (total working fund)of CCBL show an increasing trends throughout the study period. The investments in government securities also show an increasing trend. There has been an increase in CCBL'S investments in shares & debentures of other companies up to the year 2013/14 therefore it starts descending in the latest year of study. The above tables 4.1, 4.2, 4.3, were just the overview of the various investments done by the three banks, and their contribution in the total assets of the concerned banks. Now, the financial analysis of the available data has been presented below.The following are the financial ratios that have been calculated under this part of data analysis.

4.1.1 Liquidity Ratios:

The Commercial banks are required to pay to their depositors the amount they have inn their accounts on demand and/ or maturity of the accounts. Thus they need to have sufficient liquidity to pay to the depositors. They also need liquidity to fulfill their operational obligations. Below are calculated various liquidity ratios of three banks under study.

Cash&Bank Balance to Total Deposit Ratio

Cash & bank balance to total deposit ratio is obtain by dividing cash & bank balance by total deposit. It measures a bank's ability to meet the immediate liquid fund requirement for all unanticipated call on its deposit.Very low cash &bank balance to total deposit ratio indicates low efficiency of the bank to meet its liquid fund requirements. A very high ratio is also not desirable because it means the bank has more idle cash on than required.The following table shows the calculated cash & bank balance to total deposit ratio of the three banks under the study period of six years.

Table 4.4

Cash & Bank Balance to Total Deposit Ratio (%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.16	0.16	0.15	0.12	0.10	0.18	0.15	0.024	15.51
PCBL	0.23	0.20	0.21	0.16	0.16	0.18	0.19	0.028	14.88
CCBL	0.11	0.10	0.25	0.17	0.20	0.18	0.17	0.055	32.14

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 2 I)

Table no 4.4 showsthe Total mean, S.D. and C.V. of cash & bank balance to total deposit ratio of the three chosen commercial banks. Content of table shows the percentage of cash&bank balance to total deposit ratio position of GBIME, PCBL, and CCBL.The table shows that GBIME has fluctuating trends of cash and bank balance to total deposit ratio except in the years The ratio is maximum in the year 2016/17 at 0.18 and least in the year 2011/12 at 0.11. PCBL has fluctuating trends of cash and bank balance to total deposit ratio. The ratio is maximum in the year 2011/12 is 0.23 and least in the year 2015/16&2015/16 at 0.16. CCBL also has a fluctuating trend of cash and bank balance to total deposit ratio throughout the study period except in the year 2016/17.It has maximum in the year 2013/14 at 0.25 and least in the year 2011/12 at 0.11 .The mean of the ratios is the greatest in the case of PCBL at 0.19 and the least is in the case of GBIME at 0.15. It shows that GBIME has the better ability of meeting with the immediate liquid fund requirements than the other two. The coefficient of variation of the ratios in the case of PCBL is the least at 14.88 and that is greatest in the case of CCBL at 32.14. It shows that the ratios of PCBL are the least consistence and CCBL is the most consistencies.

Cash & Bank Balance to Current Assets Ratio:

Cash and bank balance ratio shows the portion of cash bank balance on current assets ratio, which shows the bank's ability to make quick payment to its customers.A high ratio indicates that the bank is able to meet its daily cash requirements and vise-versa. But neither a too high ratio nor a too low one is desirable. A too high cash & bank balance to current assets ratio means that the bank has idle cash with it which mean only added cost for interest to be paid to its deposits. If the ratio is too low, it might indicate towards the bank's being unable to meet its cash requirements of paying its deposits promptly and adequately.The ratio of three banks under study over the study period of the year 2011 to 2017 have been presented below in the table.

Table 4.5

Cash & Bank Balance to Current Assets Ratio (%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.81	0.84	0.89	0.88	0.90	0.92	0.87	0.037	4.16
PCBL	0.92	1	1	0.93	0.90	0.93	0.94	0.041	4.31
CCBL	0.71	0.75	0.91	0.89	0.89	0.90	0.84	0.087	10.37

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 2 II)

Table 4.5 shows that total mean, S.D. and C.V. of cash & bank balance to current assets ratio of the three chosen commercial banks. Contents of the table shows the percentage of cash and bank balance to Current Assets ratio position of GBIME, PCBL, and CCBL.The above table shows that the cash and bank balance current assets ratio of all three banks have been fluctuating over the years. GBIME has the ratio in increasing trend over the last year of study. The ratio was maximum in the year 2016/17 at 0.92 and the minimum in the year 2011/12 at 0.81. PCBL's ratio shows fluctuating trends. The ratio is highest in the year 2012/13 &2013/14 at 1 and the lowest in the year 2015/16 at 0.90. The ratio of CCBL is in fluctuating trend except in the year . The ratio is maximum in the year 2016/17 at 0.90 and minimum in the year 2011/12 at 0.71

Studying the mean of the ratios shows that PCBL has had highest mean of cash and bank balance to current assets ratio at 0.94, followed by GBIME and then CCBL with the lowest ratio at 0.84It shows that the liquidity position of PCBL is higher than that of GBIME, and CCBL. The coefficient of variation of the ratios of CCBL is the highest which is 10.37, which shows that CCBL has had fluctuating ratio over the study period. The coefficient of variation of the ratios of GBIME is the highest which is the least, only 4.16, which means the ratio of GBIME have been fairly consistent than the other two banks.

Investment on Government Securities to Current Assets Ratio

All the commercial banks in Nepal have their investment in government securities. Investment in such is regarded to be safe, but less lucrative than other sectors. Investment in such securities is not as liquid as cash and bank balance, but they are highly marketable. Investment on government securities to current assets ratio shows the portion of current assets that is occupied by the investment on government securities. The following table shows the investment on government securities to current assets ratio of the banks over period of the six years.

Table 4.6

Investment on Government Securities to Current Assets Ratio (%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.69	0.81	0.89	1.18	1.81	0.73	1.02	0.39	38.49
PCBL	0.33	0.83	0.40	0.69	0.44	0.28	0.50	0.21	43.60
CCBL	0.76	1	0.09	0.49	0.14	0.15	0.44	0.38	86.05

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix2 III)

Table no. 4.6 shows the total means, S.D. and C.V. of Investment of government Securities to Current Assets ratio of the chosen commercial banks. Contents of the table shows the percentage of Investment of Government to Current Assets ratio position of GBIME, PCBL and CCBL.GBIME's ratio seems to be in fluctuating trends where the ratio is increasing fashion up to the starting 5years and decrease in 2016/17. The GBIME ratio was maximum in the year 2016/17 at 1.81 and the minimum in the year 2014/15 at 0.69Similarly, the ratios of PCBL is in fluctuating trends year of study. The ratio is highest in the year 2012/13 at 0.83and the lowest in the year 2016/17 at 0.28. The ratio of CCBL is in fluctuating trends. The ratio is maximum in the year 2012/13 at 1 and minimum in the year 2015/16 at 0.14.

PCBL has highest mean of ratio at 1.02, followed by the PCBLand CCBL, the lowest at 0.44. Thus, we can conclude that PCBL has had the greatest portion of its current assets in its current assets in the same. The Coefficient of variation of the ratios is highest in the case of CCBL at 86.05, which shows that the ratios have been very inconsistent over the years, followed by CCBL at 43.60, and then that of GBIME the lowest among three at 38.49

Loans & Advances to Current Assets Ratio

Loans & advances play a vital role in commercial banks. The income from loans & advances has a very big part to play in a banks income and thus profits. The banks collect deposits from public and public and organization in lower interest rate and grant loans & advances to other parties in higher interest rates. The income they earn from such loans & advances, the banks uses them in paying interest on other deposit and meeting other operational expenses. Thus, commercial banks are interested in investing more of their current assets in loans & advances.Loans & Advances to current assets ratio shows the portion invested by the commercial bank as loan & Advances to other parties over its current assets. The ratio has to be kept in an optimum level. Too high ratio means a large portion of current assets invested as loans & advances, which means increased risks. If the ratio is too low, the banks have to find other sectors that generate incomes to compensate for the income they could earn if they had more investments in loans &advances.The table below shows the loans & advances to current assets ratio of the banks.

Table 4.7

Loans & Advances to Current Assets Ratio (%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	3.71	3.99	4.49	5.62	6.19	3.87	4.65	0.93	20.13
PCBL	3.12	3.65	3.70	4.62	4.63	4.35	4.01	0.61	15.28
CCBL	5.78	5.61	2.91	4.14	3.82	4.38	4.44	1.09	24.59

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 2 IV)

Table 4.7 shows that total mean, S.D. and C.V. of loans & advances to current Assets ratio of the chosen three commercial banks. Contents of the table show the percentage of loans & advances to Current Assets ratio position of GBIME, PCBL and CCBL.The above table shows that GBIME has decreasing trend of & Advances to current Assets Ratio except in the year 2015/16. There has been gradual decrease in this ratio in the recent year due to the banks following a more conservative credit policy in the latest years. The ratio is at the peak in the year 2015/16 when it reaches 6.19. GBIME's ratio is the lowest in the year 2011/12 at 3.71 PCBL on the other has had the ratio in fluctuating trend. The ratio is the maximum in the year 2015/16 at 4.63 and lowest in the year 2011/12 at 64.26. The ratio has never reached than 70% of the current assets.

4.1.2 Assets Management Ratios

The asset management ratio shows how much the banks have been able to manage their asset in order to earn high profit as well as to satisfy its customers. These ratios also measures the bank's efficiency to manage its resources as it commands.The following assets management ratio have been calculated and analyzed in the study.

Loans & Advances to Total Deposit Ratio

Loans & Advances to total deposit is also known as the C.D. ratio (Credit/Deposit Ratio). This ratio measures the percentage of loans & advances over total deposit. This ratio tells us how much the banks have been able to mobilize their deposits in loans & advances. A higher ratio indicates that the banks has been able to utilize the fund collected in its deposit in the credit sector, but too high ratio is not desirable either for the liquidity point of view. The following table shows the loans & advances to total deposit ratios of the three banks over the six year study period.

Table 4.8

Loans & Advances to Total Deposit Ratio (%)

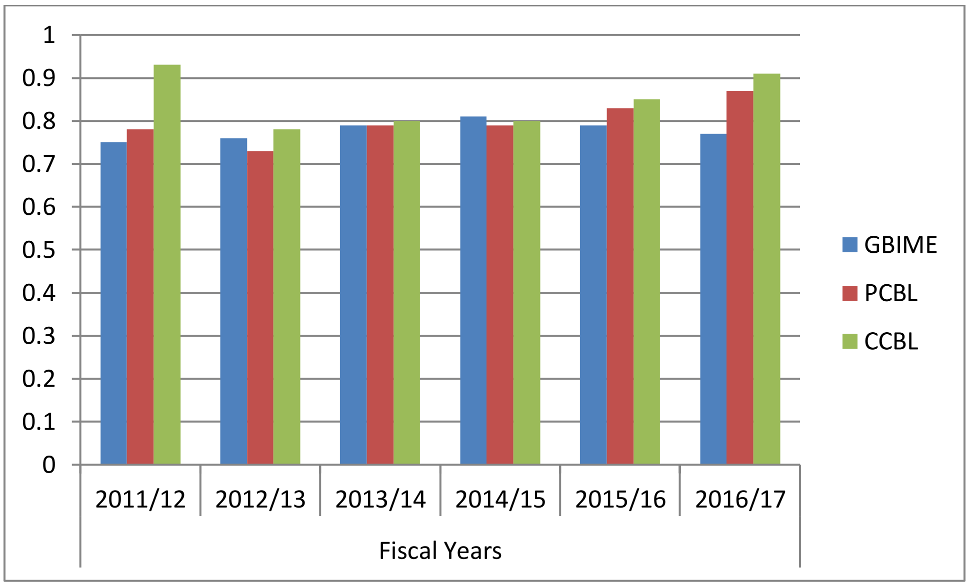
Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.75	0.76	0.79	0.81	0.79	0.77	0.78	0.02	2.59
PCBL	0.78	0.73	0.79	0.79	0.83	0.87	0.80	0.04	5.81
CCBL	0.93	0.78	0.80	0.80	0.85	0.91	0.84	0.06	7.19

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 3 I)

Table no 4.8 shows the total mean, S.D. and C.V. of loans & advances to total deposit ratio of the chosen three banks i.e. GBIME, PCBL and CCBL.The Loans & advances to total deposit ratio of GBIME is in increasing trends over the study period except in the last two years of study period. The ratio was the maximum in the year 2014/15 at 0.81 and the lowest in the year 2011/12 at 0.75.The ratio of PCBL, are found to be in fluctuating trends throughout the study period. The ratio is in increasing trend over the first two years. The ratio was maximum in the year 2016/17 is 0.87 and the least in the year 2012/13 is 0.73. Similarly, the ratio was maximum in the year 2011/12 is 0.93 and the least in the year 201 2/13 is 0.78 .CCBL has the highest mean of the ratio at 0.84, followed by PCBL and then GBIME the least at 0.78. It shows that shows that CCBL has strong position regarding the mobilization of Total deposit on loans & advances. Gbime has the lowest coefficient of variation at 2.59, which means that the bank loans & advances to total deposit ratio have been very consistent. GBIME seems to be the latest consistent in this ratio, with the C.V. of 2.59, the highest among the three.

Figure 4.1

Loans & Advances to Total Deposit Ratio (%)



Total Investment to Total Deposit Ratio

The primary focus of the commercial banks is to invest in the credit sector, as apparently, credit sector is generally more lucrative than investing in securities and stock. To avoid idle cash holding, they invested in outside sectors, in the form of investment in government securities and that in shares & debentures of other company. If the ratio is very high, it means that the bank is following a conservation credit policy, and if it is very low, it means that the banks are more focused in investment in loans & advances.

The following table shows the ratio of the banks under study.

Table 4.9

Total Investment to Total Deposit Ratio (%)

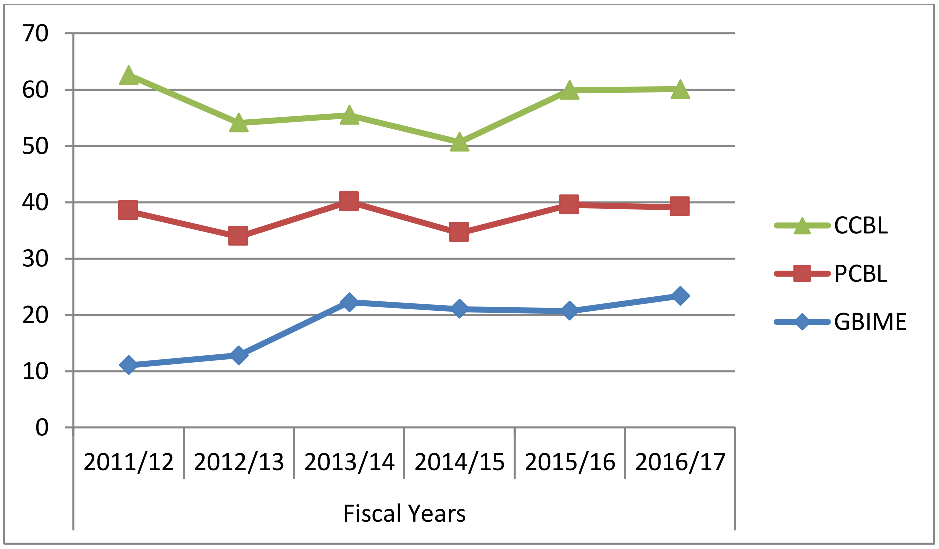
Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.15	0.16	0.16	0.17	0.24	0.15	0.17	0.02	16.40
PCBL	0.84	0.16	0.86	0.14	0.10	0.093	0.11	0.03	30.43
CCBL	0.13	0.20	0.03	0.09	0.04	0.04	0.09	0.06	71.79

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 3 II)

Table no. 4.9 shows the total mean, S.D. and C.V. of total investment to total deposit ratio of the chosen bank i.e. GBIME, PCBL and CCBL.The Total investment to total deposit ratio for GBIME seems to be very fluctuating. The ratio was maximum in the year 2015/16 at 0.24 and the ratio was lowest in the year 2011/12 at 0.15 .Similarly, the total investment to total deposit of PCBL is also in fluctuating trend, as the ratio was fluctuating and increasing in the study. The ratio was maximum in the year 2011/12 at 0.84.

GBIME has the highest mean of the ratios at 0.17, followed by PCBL with mean 0.11 and then CCBL the least at 0.09. It shows that CCBL is more successful to utilize its deposit by investing its fund in different securities and other financial and non-financial companies. CCBL has the lowest coefficient of variation at 71.79, which means that the banks total investment to total deposit ratio have been very consistent.

Figure 4.2
Total Investment to Total deposit Ratio (%)



Loans & Advances to Total Working Fund Ratio

For a Commercial bank, the total assets mean total working fund. Loan & advances to total working fund ratio measures the ratio of investment done by the banks in the form of loans & advances over the total assets of the banks. Since investment in loans & advances is the most lucrative allocation of funds for commercial banks, this ratio measures the ratio of the total assets in lucrative business over the whole total assets. In the other word, this ratio reflect the extent to which the commercial banks are success in mobilizing their assets on loans & advances for the purpose of income generating. A very high ratio is nor desirable since it involved; and a very low ratio may be indicated towards business failure of the bank.The ratio of the three banks under study over the study period of the years 2009 to 2015 have been presented below in table.

Table 4.10

Loans & Advances to Total Working Fund Ratio (%)

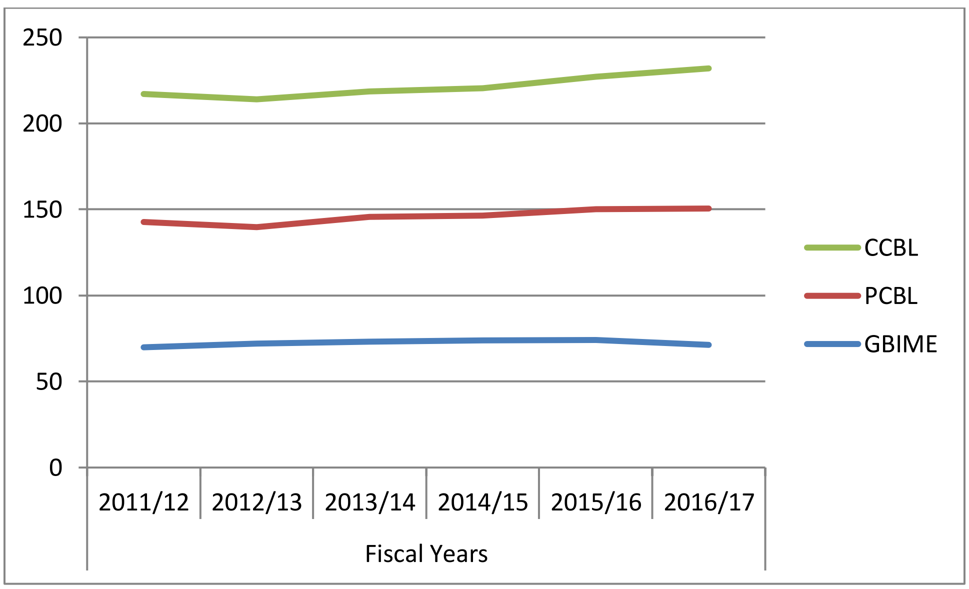
Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.69	0.71	0.73	0.73	0.74	0.71	0.72	0.014	2.15
PCBL	0.72	0.97	0.72	0.72	0.75	0.79	0.73	0.037	5.15
CCBL	0.74	0.74	0.73	0.74	0.77	0.81	0.75	0..31	4.09

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 3 III)

The table 4.10 shows the total mean, S.D. and C.V. of the loan & advances to total working fund ratio of GBIME, PCBL and CCBL.Loans & Advances to Total Working Fund Ratio of GBIME is the highest in the year 2015/16 is .074 and the lowest in the year 2011/12 at 0.69 That of PCBL is the highest in the year 2012/13 at 67.84 and the lowest in the year 2011/12 at 63.75. CCBL has the highest ratio in the year 2013/14 at 71.46 and the lowest in the year 2011/12 at 73.08.The mean of the ratios is the highest of CCBL at 68.86, followed by PCBL at 65.68 and then that of GBIME .the lowest at 58.13 indicating that CCBL has done better utilized of funds as loan & advances for the purpose of income generation. In the same manner, coefficient of variation of GBIME is the highest at 5.15 signifying that GBIME has had the most variations in ratios, followed by CCBL at 4.09 C.V., and then PCBL the lowest C.V. at 2.01, making it the most consistent in the ratios among the three banks.

Figure 4.3

Loans &Advances to Total Working Fund Ratio (%)



Investment on Government Securities to Total working Fund Ratio

Investment in government securities is the risk free investment; however, investment in such is not very lucrative. Commercial banks invest their funds in such securities to utilize their idle cash that on the other hand bears interest. The investment on government securities to total working fund ratio measures the portion of total assets mobilized in risk-free investments in the form of investment in government securities.The following table shows the ratios of the commercial banks under study.

Table 4.11

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

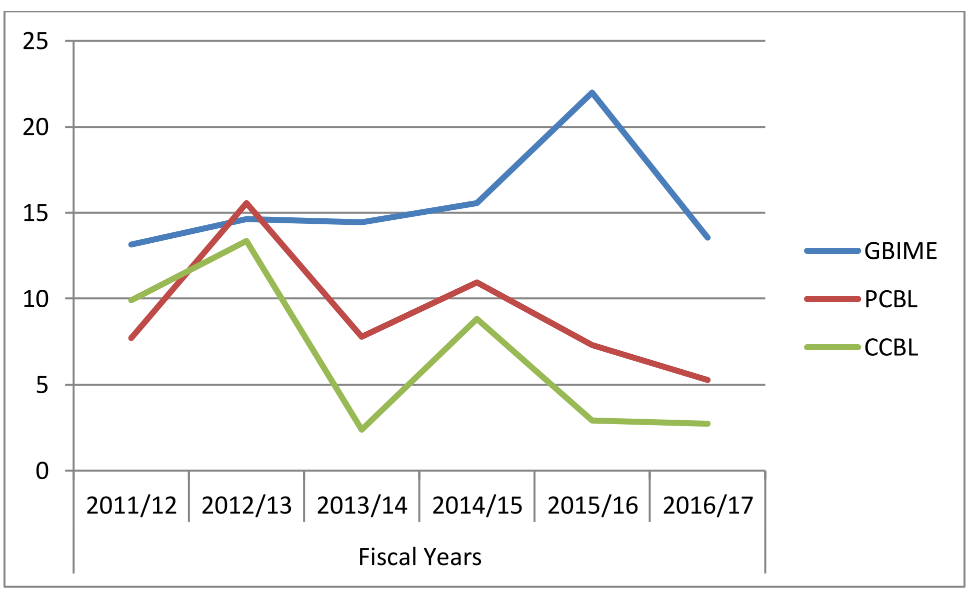
Bank	Fiscal Years						Mean	S.D.	C.V.
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			(%)
GBIME	0.13	0.14	0.14	0.15	0.21	0.13	0.15	0.029	19.13
PCBL	0.07	0.1	0.78	0.10	0.07	0.05	0.091	0.036	40.04
CCBL	0.09	0.13	0.02	0.08	0.029	0.02	0.66	0.046	69.47

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 3 IV)

Table no 4.11 shows the total mean, S.D. and C.V. of investment on government securities to total working fund ratio of GBIME, PCBL and CCBL.The investment on government securities to total working fund ratio of GBIME shows an increasing trend except in the year 2014/15. The ratio is highest in the year 2016/17 at 21.99 and the lowest in the year 2014/15 at only 13.15. Similarly, the investment on government securities to total working fund ratio of PCBL is in increasing trends except in the year 2015/16.

Figure 4.4

Investment on Government Securities To Total Working Fund Ratio



Investments on Shares &Debentures to Total Working Fund Ratio

There are two types of investment i.e. investment in government securities and investment on shares and debentures. Commercial banks also invest their funds in the stock of other companies. This is important for the banks since this allows them to invest their funds in income earning sectors; and this is important for the nation as well since this allows the new companies to establish. Investment in shares and debentures to total working funds ratios measures the ratio of total assets invest in share & debentures over the total assets. It reflects the extent on which the bank are successful to mobilization their total assets on purchase of shares and debentures of other companies to generate incomes to generate incomes and utilize their excess fund.The following table shows the ratio of the banks over the study period.

Table 4.12

Investment on Shares & Debentures to total working Fund Ratio (%)

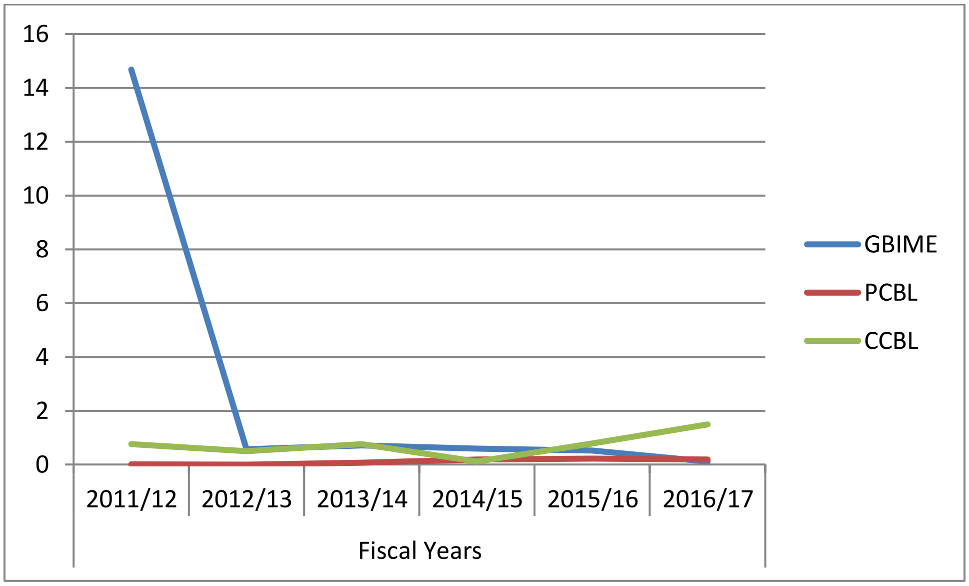
Bank	**Fiscal Years**						**Mean**	**S.D.**	**C.V. (%)**
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**			
GBIME	0.14	0.50	0.70	0.50	0.50	0.11	0.083	0.034	41.29
PCBL	0.006	0.007	0.063	0.18	0.22	0.19	0.012	0.013	109.08
CCBL	0.76	0.5	0.75	0.11	0.79	1.49	0.015	0.019	126.19

Source: Annual Report of GBIME, PCBL,&CCBL (Details in Appendix 3 V)

Table no. 4.12 shows the total mean, S.D. and C.V. of investment on shares and debentures to total working fund ratio of GBIME, PCBL and CCBL. The investment on shares and debentures to total working fund ratio of GBIME shows a fluctuating trend. It has the highest ratio in the year 2014/15 at 0.15 and the lowest in the year 2016/17 at 0.14. PCBL ratio of investment on shares and debentures to total working fund ratio show a decreasing trend over the study period. The ratio is maximum in the year 2012/13 at 0.31 and minimum in the year 2011/12 at 0.006. The ratio of CCBL also shows a fluctuating trend throughout the study period.

Figure 4.5

Investment on Shares & Debentures to Total Working Fund Ratio



4.1.3 Profitability Ratios

Commercial banks are profit oriented service-sector organization. Their main objective is to earn profit providing various banking services to their customers. They are required to earn sufficient profits for various operational and business related matters, as well as to exploit opportunities available in the market. The profitability ratio indicate towards the overall efficiency of the commercial banks. The profitability ratio of income as well as net profit over various other variables. The following profitability ratios have been calculated to measure the profit earning capacity of the commercial banks under the study.

Return on Loan & Advances Ratio

Return on loan & advances shows the ratio of net profits over the total loans & advances. This ratio thus shows what percentage of the investment in loan & advances could be realized as net profits.The following table shows the return on loan & advances ratio of the three banks.

Table 4.13

Return on Loans & Advances Ratio (%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.013	0.017	0.024	0.02	0.023	0.025	0.02	0.004	20.83
PCBL	0.014	0.025	0.020	0.022	0.027	0.025	0.022	0.0046	20.90
CCBL	0.002	0.0073	0.0058	0.012	0.016	0.012	0.0093	0.0059	64.06

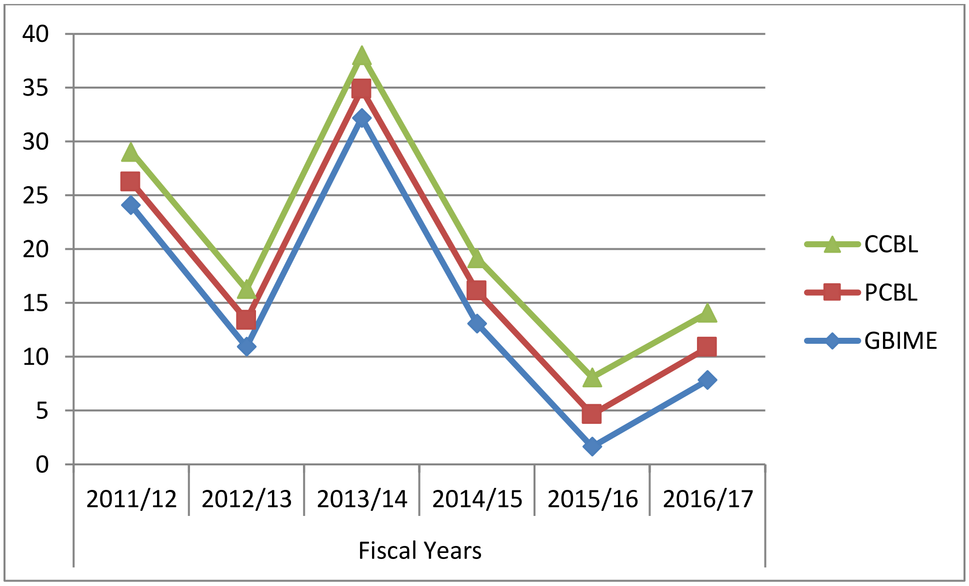
Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 4 I)

Table no. 4.13 shows the total mean, S.D. and C.V. of return loan & advances ratio of GBIME, PCBL and CCBL.The return on Loan & advances ratio of GBIME show fluctuating trend throughout the study period. The ratio is the highest at 0.025 in the year2016/17. The ratio of GBIME is the lowest in the year 2011/12 with 0.013 and in the year 2015/16.. PCBL's return on Loan & advances ratio is in increasing order, where there is slight decrease in the ratio in the year 2015/16. The return on Loan & advances ratio is the highest in the year 2016/17 at 0.027 and the lowest in the year 2011/12 at 0.014.

CCBL also has had the ratio in increasing order throughout the study period except in the year 2016/17. CCBL has had the ratio highest in the year 2015/16 at 0.016 and lowest in the year 2011/12 at 0.02.PCBL has the highest mean of ratio at 0.022 which show that it has high net profit over the total loans and advances ratio. And CCBLL has the lowest mean of ratio at 0.009 showing that it has low net profits over the total loans and advances ratio. The coefficient of variation of GBIME is the lowest, followed by PCBL, and CCBL having highest C.V. with making the bank the most inconsistent in the ratio among three banks. The statistical analysis shows following figure.

Figure: 4.6

Return on Loans & Advances Ratio



Return on Total Working Fund Ratio

Return on total working fund ratio measures the percentage represented by the net profit over the total assets. The ratio shows us how much of the total assets the bank has been able to earn as net profits.The following table shows the calculation of the ratios of the three banks.

Table 4.14

Return on Total Working Fund Ratio (%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.009	0.012	0.017	0.015	0.017	0.018	0.015	0.003	21.63
PCBL	0.010	0.015	0.014	0.016	0.021	0.020	0.016	0.003	23.73
CCBL	0.001	0.005	0.004	0.009	0.129	0.010	0.007	0.004	65.58

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 4 II)

Table no. 4.14 and figure shows the total mean, S.D. and C.V. of return on Total Working Fund ratio of the chosen banks i.e. GBIME, PCBL and CCBL.The return on Total working Fund Ratio of GBIME is the highest in the year 2016/17 at 0.018 and the lowest in the year 2011/12 and 2011/12 at 0.009. The ratio of PCBL is the highest in the year 2015/16 at 0.021and the lowest in the year 2011/12 at 0.01. Similarly, the ratio of the CCBL is the highest in the year 2015/16 at

0.12 and the lowest in the year 2011/12 at 0.001.PCBL has the maximum mean of the ratios, which is 0.016, followed by CCBL at 2.13 and with the least mean ratio of PCBL with 1.79. It shows that GBIME has strong earning capacity than the other two banks. The coefficient of variation of CCBL ratio shows the consistency with the C.V. of 65.58 only. The C.V. of PCBL is 23.73. It shows that GBIME's C.V. proves to be the most inconsistent.

Return on Equity

The mean on equity shows the ratio of the net point over equity, which is the net worth of the banks. It is the owner's (shareholders) claim of the banks. This ratio measures the efficiency of the banks in using the funds of the owners.The following table shows the calculation of the return on equity ratios of the three banks under the study.

Table 4.15

Return on Equity (%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.118	0.162	0.198	0.158	0.193	0.226	0.176	0.035	19.65
PCBL	0.115	0.185	0.176	0.201	0.244	0.182	0.184	0.04	22.72
CCBL	0.008	0.06	0.041	0.112	0.12	0.086	0.071	0.047	65.92

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 4 III)

Table no. 4.15 shows the total mean, S.D. and C.V. of return on Equality of the chosen banks i.e. GBIME, PCBL and CCBL.The return on equity ratios of GBIME shows a fluctuating trend throughout the study period. The maximum ROE in the year 2016/2017 is 0.2262 and the lowest in the year 2011/12 0.11.PCBL's ratios show fluctuating trend of return on equality. The ROE of PCBL is maximum in 2015/16 at 0.24 and minimum in the year 2011/12 at 0.08. Similarly, Return on Equality ratios of CCBL also shows fluctuating trend, it was maximum in the year 2015/16 at 0.12 and minimum in the year 2011/12 at 0.008 .PCBL has the highest mean of ratios, which is 0.18

Total Interest Earned to Total Working Fund Ratio

Total interest earned to total working fund ratio of total interest earned over total assets of the banks. This ratio actually reveals the earning capacity of a commercial bank by mobilizing its working fund. A high ratio is the indicator of high earning power of the bank on its total working fund and vise-versa.The following table shows the total interest earned over total assets ratios of the three banks over the study period.

Table 4.16

Total Interest Earned to Total Working FundRatio(%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	2.43	1.74	1.59	1.46	1.26	1.55	1.675	0.367	21.92
PCBL	3.05	2.20	2.03	1.77	1.63	1.85	2.09	0.51	24.40
CCBL	2.44	2.14	2.15	2.05	1.74	2.09	2.10	0.22	10.66

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 4 IV)

Table no. 4.16 shows the total mean, S.D. and C.V. of total interest earned in total operating income ratio of the chosen banks i.e. GBIME, PCBL and CCBL.GBIME's ratio is in fluctuatingtrend. The ratio is highest in the year 2011/12 at 2.43 and the lowest in the year 2015/16 at 1.26 PCBL has the decreasing trend throughout the study period except in the year .The ratio is highest in the year 2011/12 at 3.05 and lowest in the year 2015/16 at 1.26. Similarly, CCBL also has fluctuatingtrend of the ratio throughout the study period. The ratio ismaximum in the year 2011/12where the ratio reaches at 2.44 and minimum in the year 2015/16 at 1.74

Studying the mean of the ratios, CCBL has the highest ratio at 2.10, followed by the PCBL at 0.09 and then GBIME's ratio at 1.67. Studying the coefficient of variation, PCBL's C.V. seems to be the highest among the three at 24.40%, followed by the GBIME at 21.92 and then of CCBL GBIME seems to be the most inconsistent among the three banks as it has highest percentage of Coefficient of Variance 10.66 .ion (C.V.)

Total Interest Paid to Total Working Fund Ratio

Deposit is the main source of funds for the commercial banks. They have to pay interest on such deposits as well as to borrowing from outside. It however depends on how much they have to pay as interest expense on their deposit composite. The total interest paid to total working fund ratio shows the ratio of the total interest paid over the total assets.

The following table shows the ratios of the banks under the study.

Table 4.17

Total Interest Paid to Total Working Fund Ratio (%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.05	0.05	0.03	0.03	0.02	0.03	0.039	0.01	24.7
PCBL	0.07	0.05	0.04	0.04	0.03	0.04	0.05	0.01	29.48
CCBL	0.04	0.04	0.04	0.04	0.03	0.04	0.04	0.005	11.49

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 4 V)

Table no. 4.17 shows the total mean, S.D. and C.V. of total interest paid to total working fund ratio of chosen banks i.e. GBIME, PCBL and CCBL.GBIME's ratios. The ratio seems to be fluctuating in the study period. The ratio is highest in the year 2011/12& 2012/13 at 0.05 and 2015/16 is the lowest at 0.02. PCBL has the fluctuating trend throughout the study period. The ratio is the highest in the year 2011/12 at 0.07 and the lowest in the year 2015/16 at 0.03.Similarly, CCBL has fluctuating trend of the ratios throughout the study period. The ratio is maximum in the year 2011/12 which reaches at 2011/12 to 2014/15 & 2016/17 and minimum in the year 2015/16 at 0.03

Studying the mean of the ratios, CCBL has the highest mean ratio at 2.10, followed by PCBL at 2.09 and then GBIME's ratio at 1.67. Studying the coefficient of variation, PCBL's C.V. seems to be the highest among the three at 24.40, followed by GBIME and then CCBL. PCBL seems to be the most inconsistent among the three banks.

4.1.4 Risk Ratios

The possibility of risk makes bank's investment a challenging task. Bank has to take risk to get return on investment. It increases effectiveness and profitability of the bank. If a bank expects high return on its investment, it has to accept the risk and manage it efficiently. Through following ratios, effort has been made to measure the level of risk.

Liquidity Risk Ratio

The liquidity risk ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance etc. that are kept in the bank for the purpose of satisfying the depositor's demand for cash. Higher the ratio, lower the liquidity risks.The following table shows the liquidity risk ratios of the three banks over the study period

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Table 4.18

Liquidity Risk Ratio (%)

Bank	**Fiscal Years**						**Mean**	**S.D.**	**C.V.**
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**			**(%)**
GBIME	0.16	0.16	0.15	0.12	0.11	0.18	0.15	0.024	15.51
PCBL	0.23	0.20	0.21	0.16	0.16	0.18	0.19	0.02	14.88
CCBL	0.11	0.10	0.25	0.17	0.20	0.18	0.17	0.05	32.14

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 5 I)

Table no. 4.18 shows the total mean, S.D. and C.V. of Liquidity Risk ratio of the chosen banks i.e. GBIME, PCBL and CCBL.The above table shows that GBIME has also increasing trend of cash and bank balance to total deposit ratio except the year 2014/15. The ratio is maximum in the year 2016/17 at 0.18 and the least in the year 2015/16 at 0.11 PCBL has fluctuating trend of cash and bank balance to total deposit ratio. The ratio is maximum in the year 2011/12 at 0.23 and the lowest in the year 2014/15 at 0.16. CCBL has a fluctuating trend of cash and bank balance to total deposit ratio throughout the study period. It is maximum in the year 2013/14 at 0.25 and the lowest in the year 2012/13 at 0.10.The mean of the ratios in the greatest in the case of PCBL at 0.19 and the lowest in the case of GBIME at 0.15. It shows that GBIME has the better ability of meeting with the immediate liquid fund requirements than the other two. The coefficient of variation of the ratios in the case of PCBL is the lowest at 14.88 and that is the greatest in the case of CCBL at 32.14. The C.V. of GBIME is 15.50. It shows that the ratios of GBIME are the least consistent and CCBL the most consistent.

Credit Risk Ratio

Credit risk ratios measure the probability that the loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss on the bank. Actually, credit risk ratio shows the proportion of non-performing assets in total loan & advances of the bank.The following table shows the ratio of the three banks over the study period.

Table 4.19

Credit Risk Ratio (%)

Bank	Fiscal Years						Mean	S.D.	C.V. (%)
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17			
GBIME	0.69	0.71	0.73	0.73	0.74	0.71	0.723	0.015	2.015
PCBL	0.72	0.67	0.72	0.72	0.75	0.79	0.73	0.03	5.15
CCBL	0.74	0.74	0.73	0.77	0.18	0.75	0.75	0.03	4.09

Source: Annual Report of GBIME, PCBL, &CCBL (Details in Appendix 5 II)

Table no. 4.19 shows the Total mean, S.D. and C.V. of credit risk ratio of the chosen banks. Contents of the table show the percentage of loans &advances to total working fund ratio position of GBIME, PCBL and CCBL.Loans & Advances to Total Working Fund Ratio of GBIME is the highest in the year 2015/16 at 0.74 and the lowest in the year 2011/12 at 0.69. That of PCBL is the highest in the year 2016/17 at 0.79 and the lowest in the year 2012/13 at 0.67. CCBL has the highest in the ratio in the year 2016/17 at 0.81 and the lowest in the year 2013/14 at 0.73.

The mean of the ratios in the highest of CCBL at 0.75 and that of GBIME is the lowest at 0.72 In the same manner, coefficient of variation of CCBL is the highest at 4.09 signifying that CCBLhas had the most variation in the ratios, and GBIME the lowest C.V. at 2.01, making it the most consistent in the ratios among the three banks.

4.1.5 Growth Ratios

Growth ratios are directly related to the fund mobilization and investment management of a commercial bank. It represents how well the commercial banks are maintaining its economic position. Higher ratio indicates better the performance of the bank and vice-versa.Under, this section, growth ratio of Total Deposit, loan & advances, Total investment and Net Profit are calculated.

i Growth Ratio to Total Deposit

The following table shows the growth ratio of total deposit of the banks over the study period.

Table 4.20

Growth Ratio of Total Deposit (%)

(In Millions Rs.)

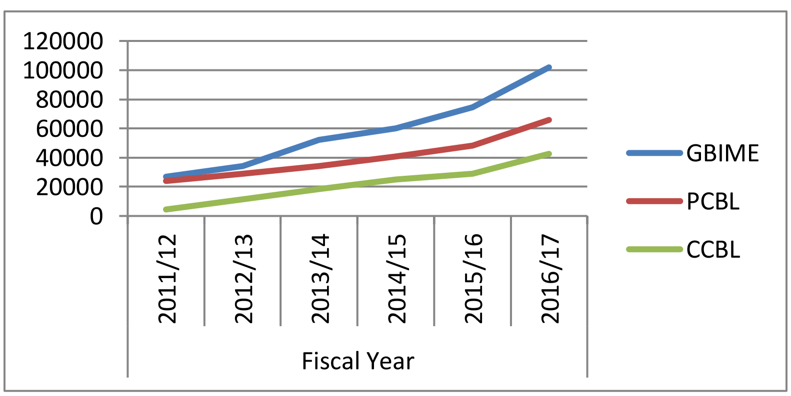
Bank	Fiscal Year						Growth ratio
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
GBIME	26913.76	34111.46	52292.05	60043.94	74682.91	101910.48	3.78
PCBL	23990.95	28798.02	34045.26	41005.75	48342.12	65855.88	2.74
CCBL	4456.70	11396.47	18393.72	24948.56	28967.84	42593.65	9.55

Source: Annual Report of GBIME, PCBL & CCBL (Detail in Appendix 6 I)

The above table shows that the growth ratio PCBLis less than that of GBIME and CCBL. We can see the growth ratio of PCBL is 2.74 only. CCBL has the highest growth ratio of 9.55 followed by CCBL, 9.55. The above position of growth rate indicates the PCBL used to increase its deposit collected very tightly than CCBL and GBIME.

Figure 4.7

Growth Ratio of Total Deposit (%)



ii Growth Ratio of Loans & Advances

The following table shows the growth ratios of loan & advances of the banks over the study period.

Table 4.21

Growth Ratio of Loan & Advances (%)

(In Million Rs.)

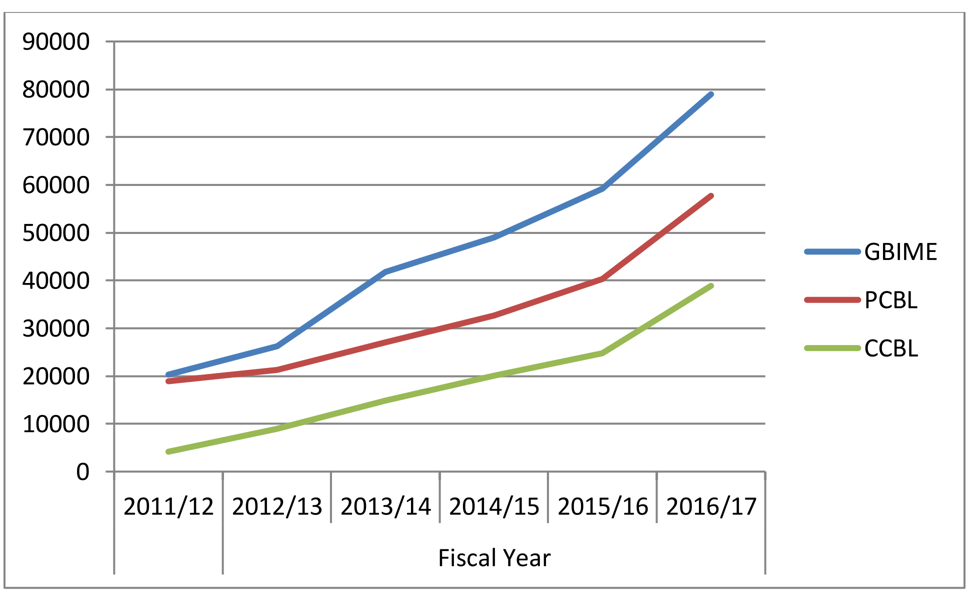
Bank		Fiscal Year					Growth Ratio
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
GBIME	20296.50	26212.29	41777.65	48936.96	59219.29	78965.10	3.89
PCBL	18902.47	21226.68	27104.41	32616.50	40272.09	57711.39	3.05
CCBL	4159.72	8974.98	14827.28	20093.13	24767.95	38871.09	9.34

Source: Annual Report of GBIME, PCBL & CCBL (Detail in Appendix 6 II)

The above table shows the growth of ratio of loan & advances. The Growth rate of PCBL AND GBIME seems to be quite low i.e. 3.05& 3.89 respectively. The Growth rate of CCBL seems to be the highest at 9.34this position of Growth ratio indicates that the performance of PCBL to grant loan & advances is better than that of GBIME & CCBL.

Figure No. 4.8

Growth Ratio of Loans& Advances (%)



iii Growth Ratio of Total Investment

The following table shows the growth of total investment of the bank over the study period.

Table 4.22

Growth Ratio of Total Investment

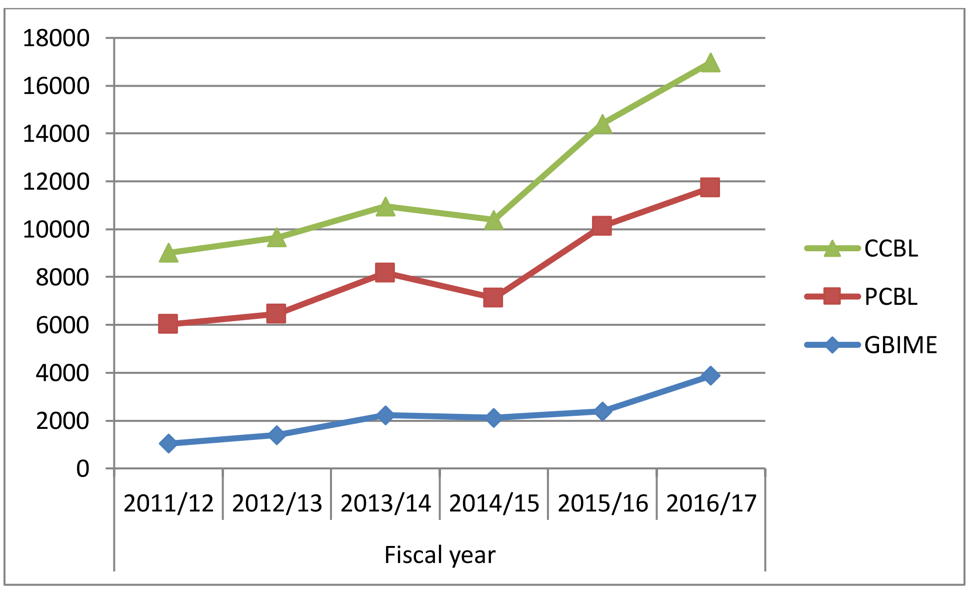
Bank	Fiscal year						Growth Ratio
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
GBIME	4247.05	5549.92	8680.77	10717.05	17990.71	16234.6	3.82
PCBL	2020.92	4894.96	2959.51	5743.07	5070.19	6145.43	3.04
CCBL	595.45	2285.15	605.14	2410.41	1184.30	1972.33	3.31

Source: Annual Report of GBIME, PCBL & CCBL (Appendix 6 III)

The above table shows the growth ratio of Total investment of the chosen three banks. The growth ratio of total investment is the highest in GBIME and the lowest in CCBL, GBIME has the growth ratio of 3.82, followed by CCBL3.31, and then of PCBL 3.04

Figure No. 4.9

Growth Ratio of Total Investment



iv Growth Ratio of Net Profit

The following table shows the growth ratio of net profit of the banks over the study period.

Table 4.23

Growth Ratio of Net Profit (%)

(In Million Rs.)

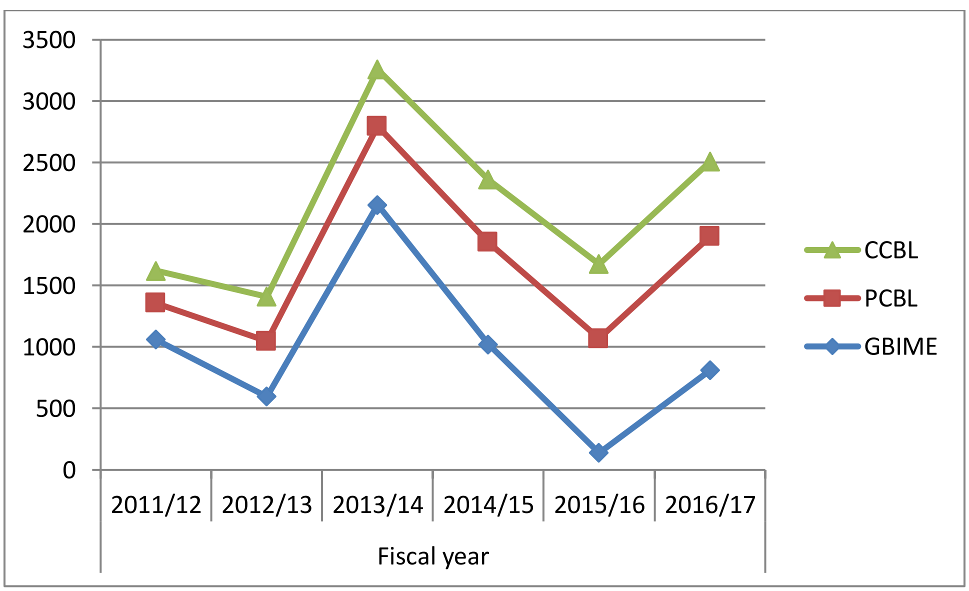
Bank	Fiscal year						Growth Ratio
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
GBIME	265.31	449.21	986.13	975.66	1382.22	2006.15	7.56
PCBL	269.44	477.56	553.44	745.58	1115.75	1467.94	5.45
CCBL	0.912	66.37	86.92	260.86	413.53	501.36	5.50

Source: Annual Report of GBIME, PCBL & CCBL (Appendix 6 IV)

The above table shows the Net Profile of the chosen banks i.e. GBIME, PCBL & CCBL show growth rate in the net profile. GBIME has the highest growth rate in the net profit of 7.56, followed by CCBL having growth rate in Net Profit of 5.50. Studying the above position of growth rate, PCBL shows better position then CCBL and GBIME as it has the highest growth rate in its profile, which is followed by CCBL & GBIME.

Figure No. 4.10

Growth Ratio of Net Profit



4.2 Coefficient of Correlation Analysis

Under this KarlPearson's co-efficient of correlation is used to find out the relationship between deposit and loan & advances, Total Deposit and total investment, Total outside assets and net profit.

4.2.1 Coefficient of correlation between Total Deposits and Loans & Advances

Coefficient of correlation between total deposits and loans & advances measures the degree of relationship between these two variables. The purpose of correlation analysis between deposit and loan & advances is to find out whether the deposit is significantly used as loan & advances or not. In this analysis, deposits is considered as independent variables, (x) and loan & advances as dependent variable (y).

Table 4.24

Correlation between Total Deposit and Loans & Advances

Bank	**Evaluation Criteria**			
	(r)	(r^2)	P.F.	6XP.E.E.
GBIME	0.82	0.68	0.087	0.52
PCBL	0.995	0.991	0.0024	0.015
CCBL	0.981	0.963	0.011	0.06

Source:Annual Report of GBIME, PCBL&CCBL (Detail in Appendix 71(A,B,C)

From the table, the coefficient (r) between GBIME's deposit and loans and advances is found to be 0.82, which shows a positive relationship between the two variables. Moreover, the coefficient of determination (r^2) is found to be 0.68 which means that 68% of the variation in the dependent variable is explained by the independent variable, which in this case are loans & advances and deposit respectively. The value of probable error is calculated at 0.087, and 6x P.E. is 0.52 which is less then the value of (r). Thus we can say that the value of (r) is significant and it shows a significant relationship between GBIME's two variable deposit and significant and it shows a significant relationshipbetween GBIME's two variables deposit and loans and advances.

In the same way the coefficient of correlation (r) between PCBL's deposit and loans and advances is found to be 0.995, which shows a very high positive relationship between the two variables.Moreover, the coefficient of determination (r^2)is found to be 0.991 which means that 99.1% of the variation in the dependent variable is explained by the independent variable, which in this case are loans & advances and deposit respectively. The value of probable error is calculated at 0/0024, and 6 x P.E. is 0.015 which is less than the value of (r). Thus we can say that the value of (r) is significant and it shows a significant relationship between PCBL's two variable deposit and loans and advances. The same way the coefficient of correlation (r) between CCBL's deposit and loans and advances is found to be 0.981, which shows a very high positive relationship between the two variables. Moreover, the coefficient of determination (r^2) is found to be 0.963 which means that 96.3% of the variation in the dependent variable in the dependent variable is explained by the independent variable, which in the case are loans & advances and deposit respectively. The value of probable error is calculated at 0.010, and 6 x P.E. is 0.06 which is less than the value of (r). Thus we can say that the value of (r) is significant relationship between two variable deposit and loans and advances.

From the above table, we can conclude that PCBL and CCBLhas the highest value of coefficient correlation between the deposit and loans & advances followed by GBIME with 0.82 coefficient of correlation. PCBL shows the highest coefficient of determination (r^2) among the three and the difference between the value of (r) and 6 x P.E. is the highest PCBL, followed by CCBL and then by GBIME. Thus, from the above analysis, we can say that PCBL has been better able to mobilize its deposit and loans and advances than the other two. All the three banks have nevertheless had positive and significant Correlation coefficients.

Coefficient of correlation Total Deposits and Total Investment

Like loans & advances, commercial banks make investments in government securities and shares & debentures of other companies from the fund collected through their deposits. The coefficient of correlation between total deposit and total investment measures the degree of relationship between these two variables. In the correlation analysis, total deposit is the independent variable and total investment is the dependent variable since the amount of investment depends upon the amount available through deposits. The objective of calculating correlation coefficient between these two variables is to justify whether the deposits are significantly used in the form of investment or not, as well as to find out the relationship between them.

The following table shows the computed values of coefficient of correlation (r), coefficient of determination (r^2), probable error (P.E.), and 6X P.E. of the three banks.

Table 4.25

Correlation Between Total Deposit and Total Investment

Bank	**Evaluation Criteria**			
	(r)	(r^2)	P.E.	6XP.E.
GBIME	0.847	0.718	0.08	0.46
PCBL	0.82	0.675	0.089	0.53
CCBL	0.81	0.66	0.092	0.55

Source: Annual Report of GBIME, PCBL&CCBL(Detail in Appendix 7 II A,B,C)

From the table, the coefficient of correlation (r) between GBIME's total deposit and total investment is found to be 0.84, which shows a positive relationship between the two variable. Moreover, the coefficient of determination (r^2) is found to be 0.718 which means that 71.8% of the variation in the dependent variable is explained by the independent variables, which in this case are total deposit and total investment respectively. The value of probable error is calculated at 0.08 and 6 x P.E. is 0.46 which is less than the value of (r) (0.84>0.46) thus we can say that the value of (r) is significant.In the same way the coefficient of correlation (r) between PCBL's Total deposit and total investment is found to be 0.822, which shows a positive relationship between the two variables. Moreover, the coefficient of determination (r^2) is found to be 0.675 which means the 67.5% of the variation in the dependent variable is explained by the independent variables, which in this case are total deposit and total investment respectively.

The value of probable error is calculated at 0.089, and 6 x P.E. is 0.53which is less than the value of (r). Thus we can say that the value of (r) is significant and it shows a significant relationship between PCBL's two variables total deposit and total investment.In the same way the coefficient of correlation (r) between CCBL's Total deposit and Total investment is found to be 0.81, which shows a positive relationship between the two variable. Moreover, the coefficient of determination (r^2) is found to be 0.662 which means that 6.62% if the variation in the dependent variable is explained by the independent variable, which in this case is total deposit and total investment respectively. The value of probable error is calculated at 0.092 and 6 x P.E. is 0.557 which is less than the value of (r),(0.81>0.557). Thus we can say that the value of (r) is significant and shows a significant relationship between two variables total deposit and total investment.From the above table, we can conclude that GBIME has the highest value of coefficient correlation between the total deposit and total investment followed by PCBL with 0.82 coefficient of correlation, followed by CCBL with 0.81 GBIME shows the highest coefficient of determination (r^2) among the three and the difference between the value of (r) and 6 x P.E. is the highest in GBIME, followed by PCBL and then by CCBL. Thus, from the above analysis, we can say that GBIME has been better able to mobilize its total deposit and total investment than the other two. All the three banks have nevertheless had positive and significant Correlation coefficients.

4.2.2 Trend Analysis

In the trend analysis, the trend of deposit collection, its utilization in the form of loans & advances and total investment, and the net profit of GBIME,PCBL and CCBL has been analyzed using the least square method. Here, the forecasting for the next five year from the latest year of study has also been performed. The following have been made for the projections:

- It has been assumed that all other things remain unchanged.
- The projection holds true when the limitation for least square method is carried out.
- It has been assumed that the economy will run in the present status.
- It has been assumed that the banks will run in the present position.
- NRB directives to the commercial banks will remain unchanged.

Trend Analysis of Loans & Advances

Trend value of loans & advances of the three banks calculated for 6 years, from 2064 to 2012 as well as forecasted value of loans & advances for 5 years from 2013 to 2017 have been shown below.

Table 4.26

Trend Values of Loans & Advances

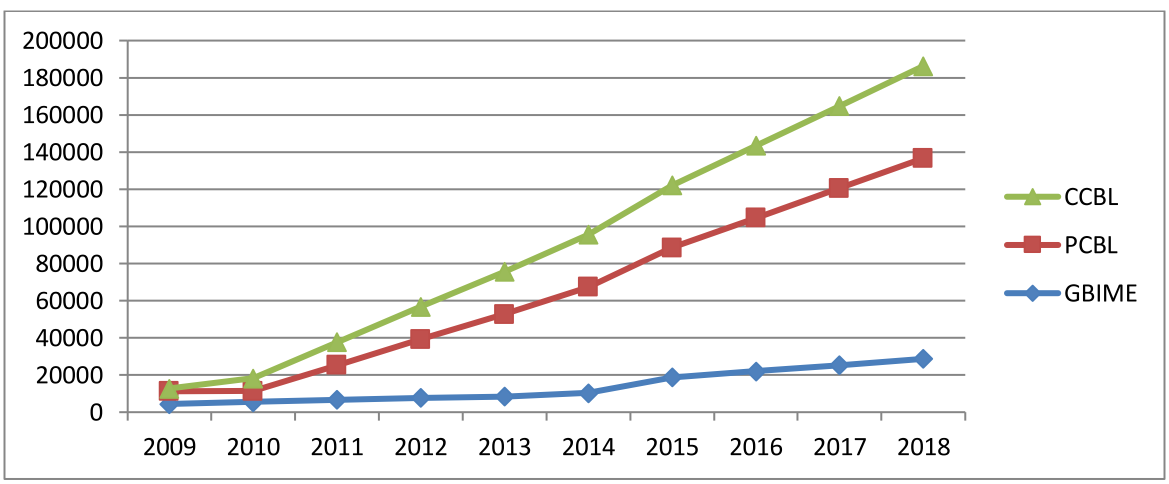
F/Y	Loans & Advances (In Million Rs.)		
	GBIME	**PCBL**	**CCBL**
2010	4409.01	6819.1	1553.65
2011	5457.8	5936.06	6895.94
2012	6704.94	18691.22	12238.23
2013	7809.54	31446.38	17580.52
2014	8452.73	44201.54	22922.81
2015	10330.07	56956.7	28265.10
2016	18771.62	69711.86	33607.39
2017	22079.51	82467.02	38949.68
2018	25387.40	95222.18	44291.97
2019	28695.29	107977.34	49634.26

Source: Annual Report of GBIME, PCBL&CCBL

The above table show the trend values of loans & advances for the chosen under study. The forecasted value for loans & advances for GBIME for the year 2017 will be Rs. 23269.44 million. PCBL is expected to have Rs.93307.57 million worth of loans & advances, and CCBL will have that amounting to Rs. 46672.47 million. From the above table, it is clear that PCBL is expected to have the highest amount of loans & advances by 2017, followed by CCBL, and then GBIME. The followingis the presentation of the trend values of loans & advances of the banks in a chart form.

Figure 4.11

Trend Values of Loans & Advances



Trend Analysis of Total Investment

Using the least square method, the trend values of the total investment of the three banks have been calculated from 2012 to 2017, and forecasted values for the same for 5 years, from 2013 to 2017 havebeen calculated. The following table shows the trend values for the total investment for the bank under study.

Table 4.27

Trend Values of Total Investment

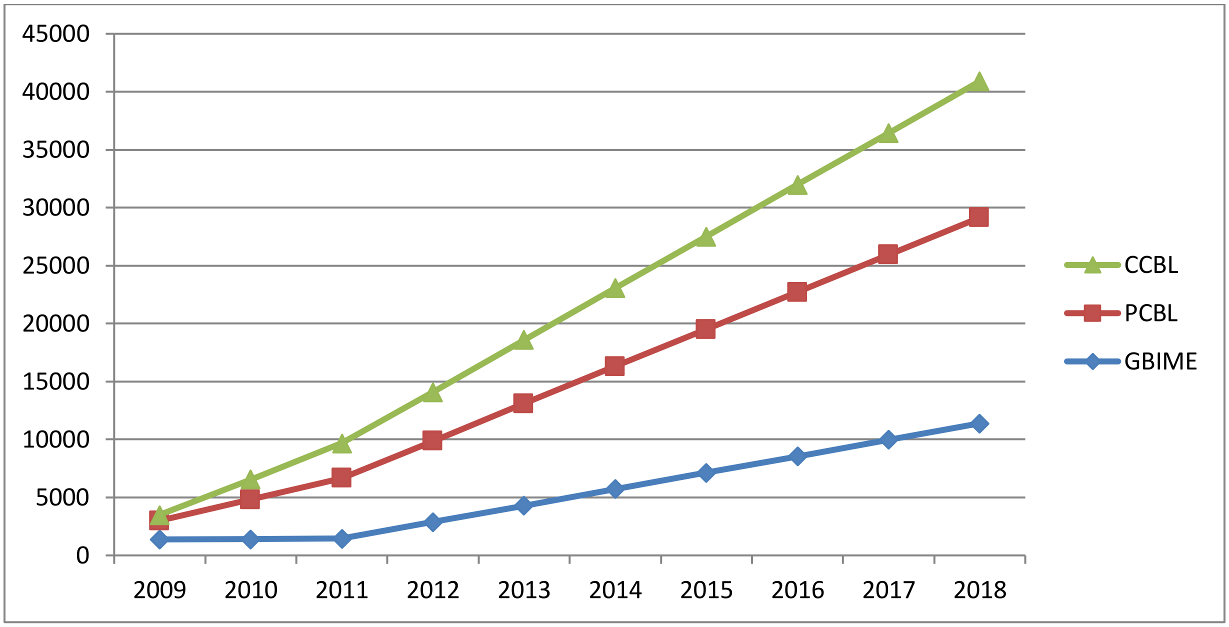
F/Y	Total Investment (In Million Rs.)		
	GBIME	**PCBL**	**CCBL**
2010	1379.54	1620.76	504.49
2011	1390.40	3413.0	1754.86
2012	1458.34	5205.24	3005.23
2013	2877.28	6997.48	4225.60
2014	4296.22	8789.72	5505.97
2015	5715.16	10581.96	6756.34
2016	7134.1	12374.2	8006.71
2017	8553.04	14166.44	9257.08
2018	9971.98	15958.68	10507.45
2019	11390.92	17750.92	11757.82

Source: Annual Report of GBIME, PCBL&CCBL

The table shows that the chosen three banks i.e. GBIME, PCBL and CCBL show an increasing trend in their trend values of their total investment. GBIME is forecasted to have the total investment of Rs. 11390.92 million by the year 2018. PCBL is forecasted to have the total investment of Rs. 17750.92 million by the year 2018 and BOK of Rs. 11757.82 million by the same year. Thus, this analysis shows that PCBL will have the highest total investment by the year 2018, followed by CCBL and GBIME. The following figure shows the demonstration of the above trend values in a chart form.

Figure 4.12

Trend Values of Total Investment



Trend Analysis of Net Profit

The net profit of the three banks for 10 years from 2009 through 2018, and then forecasting of the same for the next years, from 2009-2018 have been presented in the following table.

4.3 Major finding of the study

The major finding of the analysis of various investment related data collected of the banks through various sources can be given below:

Liquidity Ratios

The liquidity Ratios of the three banks have been calculated over the period of 2011/12to 2016/17, and the major finding are as follows:

- Studying the mean of the cash & bank balance to total deposit ratio, GBIME shows to have the highest mean ratio, followed by PCBL, and then CCBL. All the three banks show fluctuation in the ratios throughout the study period.
- GBIME has the highest mean of the cash & bank balance to current assets ratio, followed by PCBL, and then CCBL. The ratios of all the three banks have yet shown fluctuating trend.

- All the three banks have substantial rise in the investment in government securities to current assets ratios in the latest year of study as compared to the initial year of study. PCBL has the highest mean of ratios, followed by GBIME and CCBL.
- In the latest year of study, all the three banks have slight decrease in their loans & advances to current assets ratios from the first year of study. CCBL has the highest mean of ratios, followed by PCBL and then GBIME.

Asset Management Ratios

The asset management ratios calculated in the study has the following findings:

- The mean of the loans & advances to total deposit ratios ofCCBL is the highest among the three banks, which means that CCBL has more of its deposits invested in the form of loans & advances, followed by PCBL andGBIMEhas the lowest of the mean of the ratio. The ratios show highest consistency in PCBL with the lowest C.V at 5.81, followed by CCBL at 7.19. GBIME proves to have the lowest degree of consistency in the ratios with the highest C.V of 2.59%.
- CCBLhas the highest mean of the investment on government securities to total working find ratios at 0.66, followed by GBIME with mean 0.15 and then PCBL with mean 0.091. CCBL proves to have the highest inconsistency in the ratios among the three with the highest C.V. at 69.47%. GBIME proves to have the highest consistency in the ratios with the lowest C.V at 19.13%.
- GBIME has the highest mean of the investment on shares & debentures to total working fund ratio, followed by CCBL and then PCBL. PCBL proves to have the highest degree of consistency with C.V of 41.29% where CCBL proves to have the highest degree of inconsistency with C.V at 126.19.

Profitability Ratios

The profitability ratios calculated in the study have the following findings:

- GBIME has the highest mean ratio of return on loans & advances, followed by CCBLand then PCBL. GBIMEshows negative net profit in the latest year of study. BothPCBL and CCBL have increase in their ratios in the latest year of study from the first year of study. CCBL has the highest degree of consistency in the ratios and GBIME proves to have lowest degree of consistency with the highest C.V.

- GBIME also has the highest mean of return on total working fund ratios as well as the highest degree of consistency, followed by CCBL and then PCBL. It shows that GBIME has strong earning capacity than the other two banks. The coefficient of Variation of CCBL ratio shows the least degree of inconsistency among the three banks.
- In the case of return on equity, GBIME has the highest mean of the ratio, followed by PCBL. CCBL has the lowest mean of ratios. It indicates that GBIME is more successful in mobilizing its capital than the other two. It is clear that GBIME has more earning power than that ofPCBL&CCBL. But GBIME proves to be the most inconsistent with the highest C.V and CCBL prove to be the most consistent with the lowest C.V.
- GBIME has the highest of the mean of the total interest earned to total outside assets ratio as well as the highest degree of consistency, and is follows by CCBL and then PCBL. Despite having a negative profit in the latest year of study, GBIME nevertheless has been successful at earning good amount of interest income. CCBL proves to be the most inconsistent with the highest C.V. and PCBL proves to be the most consistent with the lowest C.V.
- GBIME has the highest mean of the total interest earned to total working fund ratio as well as the highest degree of consistency. GBIME nevertheless has been successful at earning good amount of interest income CCBL and PCBL have similar mean of the ratios. PCBL however proves to have the highest degree of inconsistency in the ratios.
- Studying the mean of the ratios, PCBL has the highest total interest earned to total operating income ratio as well as the lowest degree of inconsistency. It is followed by CCBL and GBIME.
- GBIMEhas the highest mean of the total interest paid to total working fund ratios, followed PCBL and then CCBL. Studying the coefficient of variation, PCBL's C.V seems to be the highest among the three at 34.74 followed by CCBL and then of GBIME. PCBL seem to be the most inconsistent amount the three banks.

Risk Ratios

In the study, three types of risk ratios of the banks under study have been calculated. They show the following findings:

- All the three banks show inconsistent risk ratios. GBIME has the highest mean of liquidity risk ratios, followed by PCBL, and then by CCBL. It shows that GBIME has the better ability of meeting with the immediate liquid fund requirement than the other two. CCBL however shows the most consistency in the ratios and GBIME shows the most inconsistent in the ratios.
- CCBL has the highest mean of the credit risk ratio, followed by PCBL, and GBIME. PCBL however has the most consistent ratios among the three. In the same manner, coefficient of variation of GBIME is the highest at 6.45 signifying that it has had the most variation in the ratios. PCBL proves to be the most consistent with the lowest C.V.
- CCBL has the highest mean of the capital risk ratio, followed by PCBL. The mean of the ratios of GBIME is the lowest. PCBL shows the high degree of consistency in its ratio whereas GBIME proves to be the most inconsistent with the highest C.V.
- CCBL has the highest mean of the interest rate risk ratios since it has more interest earning assets then interest bearing liabilities. GBIMEhas the lowest mean of interest rate risk ratios among the three banks. GBIME has the highest C.V. making it the most inconsistent in the ratio among the three banks. CCBLhas the lowest C.V making it the most consistent in the ratio.

Growth Ratios

In the study, four types of Growth ratios of the banks under study have been calculated. They show the following findings:

- The growth ratio of total Deposit of GBIME is less than that ofPCBL and CCBL, which indicates that the performance of PCBL and CCBL to collect deposit is better than that of GBIME. CCBL shows satisfactory growth rate in collecting total deposits. PCBL proves to be the finest in collecting Total deposits.
- The growth ratio of loan & advances of PCBL if highest than GBIME and CCBL. CCBL has the lowest growth ratio of loan & advances, which indicates that the performance ofGBIME and CCBL to grant loan & advances is not satisfactory.
- The growth ratio of total investment of GBIME is the highest in comparison to PCBL and CCBL. PCBL's total investment growth rate is the lowest.

- The growth ratio ofNet profit of PCBL is higher than GBIME and CCBL, which indicates that PCBL is successful to earn more profit. CCBL growth ratio of net profit is satisfactory. But, GBIME shows negative growth ratio in the net profit which indicates that GBIME could not earn more profit.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, the summary has been presented along with conclusions and actionable recommendations. There is a brief introduction to all the chapters of the study as well as the overall summary from the analysis of the relevant data. Since a study would not be complete without any suggestive findings, the study has also tried to point our errors in the investment policy and analysis of the banks under study as well as the corrective suggestionsfor the elimination of the same, with the hope of giving directions for further growth and improvement in the banks operations.

5.1 Summary

The economic development of a country dependsupon the development of the commerce and industry. There is no doubt that banking promotes the development of commerce because banking sector itself is the part of commerce. The process of economic development depends upon various factors. However, economists are now convinced that capital formation and its proper utilization play a paramount role for rapid economic development. The economic growth was quite sluggish during the first three and a half decade during the Maoist insurgency and later on, the economic rate has been quite dismal. At present, overall economic growth rate is still declining year by year. Reasons behind such decline are insecure economic condition, decrease in the tourist arrival, decreasing production and export of carpet, garment and pashmina industry and political situation of a country.The evolution of the organized financial system in Nepal has more recent history than in any other countries of the world. In Nepalese context, the history of banking is hardly seven decades. However, after the announcement of liberal and free market economy based policy, Nepalese banks and financial sectors started having greater network and access to national and international markets. The role of commercial banks in a country like Nepal can hardly be overlooked. In a country like ours where the infrastructure for developmentis not very strong, the commercial banks play a vital role in the industrialization, growth in business, as well as the general upliftment in the lives of the people. There are such organized sectors that manage the demand and supply of money in the country. Commercial banks play a vital role, which deals with other people's money, and stimulates saving by mobilizing idle resources to those sectors where the objectives opportunities as available. Modern banks provide various service to their customers in view of facilitating their economic and social life.

The objective of the commercial banks is always to earn profit by investing or granting loan & advances to the profitable, secured and marketable sectors. The commercial banks manage the demand and supply of money through accepting deposits from the general public and organization and granting loans to others. For the deposits that they accept, they have to pay certain interest. For that matter, they need to invest the collected deposits in various profitable sectors. One of the major investments done by the commercial banks is the lending in various sectors. They also invest their funds in risk free government securities as well as the shares and debentures of other companies.

Prime Commercial Bank Ltd. was established in September 2007 as the 21st commercial bank in Nepal. Bank is categorized 'A' class financial Institution registered under the "Banks and Financial Institutions Act" of Nepal. It was established with the Prime objective of providing "Banking services to Everyone" in the country where people are still deprived of Banking Services. It was incorporated by the prominent business personnel and professionals. All this review the study basically focused on the investment policy of three commercial banks by making a comparison study between the investment policy as well as deposit utilization of the bank in terms of loan and advances and investment and its contribution in the profitability of bank. The specific objectives of the study are as under. To evaluate the liquidity, asset management, efficiency and profitability of the banks. The study is based on secondary data so, the accuracy of the results and conclusions highly depend upon the reliability of the data. Theoretical review will be based on the study of theories of investment policy, important terms of investment, review of related empirical works. Likewise, research reviews includes articles, related studies and various legislative provision etc. After learning these reviews, the researcher can find out the gaping from the past research that has to be fulfilled by the present research works. The gaping between the old research and new research work will be focused and filled up based on the given objectives and limitations in this research in the unique way. Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objectives in view.

In the study, the word investment convert the analysis of wide range of activities i.e. the investment of income, saving or any other collected fund. If there is no saving, there is no existence of investment. Saving and investment are interrelated. Investment policy is a fact of the overall spectrum of policies that guides banks investment operations and it ensures efficient allocation of funds to achieve the economic development of the nation. A sound and viable investment policy attracts both borrowers and lenders, which help to increase the volume and quality of deposit, loan and investment. Therefore, the investment policy should be carefully planned and analyzed. Some sources of funds for the investment of bank are capital, general reserves, accumulated profit, deposits, and internal & external borrowing. Similarly, some important banking terms which are frequently use in investment are loan & advances, investment in government securities, shares and debentures, deposits, etc.

The study has been prepared with the subject matter of investment policies of commercial banks of Nepal. For this matter, three commercial banks, GBIME,PCBL, and CCBL have been drawn. For the preparation of the study, numerous theses, books, journals, internet sites, periodicals, NRB directives, annual report have been reviewed. Secondary data required for the study, from the period of 2011 to 2017, have been collected from various sources. On the available data, various financial and statistical analyses have been performed. Ratio analysis have been performed on various investment related variable of those banks. Trend analysis, correlation analysis, as well as testing of hypothesis have also been conducted in the study. The data presentation and analysis along with major findings of the study have been presented in the preceding chapter IV. And now, the conclusion derived from the study has been presented in the succeeding section.

5.2 Conclusions

From the analysis of various available secondary data using many financial and statistical tools, the study hascome up with the following conclusions:

- GBIME has shown to have better liquidity position than the other two, for it has more liquid assets holding. CCBL, though has more of its current assets in the form of loans and advances. PCBL, has the highest investment government securities to current assets ratio.

- From the study, we can conclude that an investment in loans & advances from their total deposits of CCBL is highest and GBIME is the lowest. PCBL however has highest ratio in investment to total deposit other than loans and advances. Out of their total assets, PCBL has more of its investment in government securities and less in shares & debentures.
- The study shows that GBIME proves to have the finest return among the three. But, it also has the highest degree of inconsistency in the return ratios. Besides, GBIME has the highest interest incomes among the three and has good consistency in it over the study period. Due to its having huge deposits, it also pays the highest amount as interest expenses and proves to have consistency in it.
- CCBL has more interest sensitive assets than interest sensitive liabilities. GBIME proves to be the most able to pay off its depositors since it has highest mean of the liquidity risk ratios, and again CCBL has the highest mean of the credit risk ratios which shows that it has relatively the most of its total assets in the form of loans and advances. All the three ratios should not be either very high or very low. All three of them prove to excel at least in one of the ratios.
- Investment in government securities is a very safe but not a very lucrative investment for commercial banks. This however is very necessary for the country's economic development. The banks under study do not seem to have made large investment in government securities.
- For the overall economic development of a country, there has to be growth and development of financial and business sectors. The banks under study do not seem to have made enough investment in shares and debentures of other companies. The investment in such sectors of PCBL and CCBL does not reach 1% of their total assets, except GBIME.
- GBIME is found to have impressive amount of interest income, but the bank shows decline in its loans & advances amount in the latest year of study.
- From the analysis of growth ratio, it seems that PCBL has higher growth rate in total deposit, loans & advances, net profit but it has average growth rate in total investment.

GBIME shows negative growth rate in its net profit. CCBL's growth rate proves to be satisfactory.

- The increasing loss seen in the trend values of GBIME's net profits is very unlikely as the losses caused by huge amounts of provision made for bad loans will be written back as the loans will be recovered, and there will be increment in its net profits.
- The trend analysis shows the PCBL's expected to have the largest amount of total deposits, loans & advances, total investment and net profits among the three banks. CCBL is the projected to have progressive total deposits, loans & advances, total investment and net profits. Similarly, GBIME is expected to have huge loss in the days to come.

5.3 Recommendations

Based on its analysis and findings, the study tries to put forward recommendations to the banks under study for betterment in the field of their investment.

- For the growth of new establishment of business, the banks under study need to make huge growths in their investment shares and debentures of other companies. The study shows that investment made by these banks in such areas is
- Very minimal. Government securities offer lower interest rate than others. So, investment in shares and debentures helps to maintain the sound portfolio of the bank. PCBL and CCBL are recommended to invest its fund on purchase of shares and debentures of other financial companies.
- Total investment made by the selected bank is in fluctuating trend. So the banks must seek new places or sectors for investment, with potentiality of high and low risk and should make rational investment.
- The study comes with this suggestion that GBIME should be more aware in the times to come in order to make sure that all directives imposed by the central bank are strictly followed, especially the directives for booking of loan loss provision, so that the bank does not have to face any instance of negative profits again in the future. The case of negative profits in GBIME however is only a temporary phenomenon; however, such incidents may cause many long tern afflictions to the bank.

- The growth ratios represent how well the commercial banks are maintain their economic and financial position; it is directly related to the fund mobilization and investment. PCBL's growth ratio is better than that of GBIME's and CCBL's. CCBL's growth ratio is satisfactory. GBIME has very fluctuating growth rate. It is recommended to increase its growth ratio in terms of deposits, loan & advances and net profile. The growth ratio of net profit of GBIMEis negative in comparison to PCBL and CCBL. So, GBIME is recommended to diversify its investment onmore profitable sector and adopt sound investment policy.
- Co-efficient of correlation analysis interprets the relationship between two or more variables. Co-efficient of correlation between loans & advances and deposit, total deposit and total investment, outside assets and net profit of GBIME is non-significant, which shows that there is insignificant relationship between these two variables. It shows that GBIME has weak position regarding the mobilization of total deposits on loan & advances. Similarly, GBIME is not successful to utilize its deposit by its fund in different securities and other financial and non financial companies. It reveals that GBIME is not able to earn net profile by mobilizing its total outside assets. So, GBIME is recommended to innovate new strategies to improve its present conditions.
- To get success in the competitive banking environment, depositor's money must be utilized as loan & advances. The largest item of the bank in the asset side is loan and advances. If it is neglected, then it would be the main cause of liquidity crisis in the bank. GBIME's loans & advances to total working fund ratio is lower than that of PCBL and CCBL. To overcome this situation, GBIME is strongly recommended to follow liberal lending policy and invest more percentage of total deposit and total working fund in loans & advances.
- The study also wishes to suggest GBIME to make effective strategies in recovering its bad loans so that the huge expenses made for loan provisioning can be reversed and the bank can again enjoy positive profits.
- The country currently is facing a very economically and financially fragile situation. Thus the study recommended that all the three banks need to increase their shares of investment in government securities.

- Majority of commercial banks have been found to be profit oriented their social responsibility, which is not a proper strategy to sustain in long run so all the banks are suggested to render their services even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the goodwill of the banks in future.
- With the entry of many new commercial banks in the market as well as probable more newcomers in the future, not to forget the entry of foreign commercial banks in the year 2010, the competition between the banks is growing and expected to grow even higher in the days to come. Thus the study recommends that the banks make efficient and sufficient preparation, both technologically and strategically, to be able to face and win new challenges in the future.

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