**MOBILIZATION OF DEPOSITS AND REINVESTMENT ASPECTS OF COMMERCIAL BANKS IN NEPAL**
**(WITH REFERENCE TO EVEREST BANK. LTD., NEPAL SBI BANK LTD. AND STANDARD CHARTERED BANK NEPAL LTD.)**


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***In partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S)***

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**November, 2009**

# RECOMMENDATION

This is to certify that the thesis

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Entitled:

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*has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.*

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## VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

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*and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for*

Master's Degree in Business Studies (M.B.S.)

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# DECLARATION

I hereby declare that the work reported in this thesis entitled **"MOBILIZATION OF DEPOSITS AND REINVESTMENT ASPECTS OF COMMERCIAL BANKS IN NEPAL (WITH REFERENCE TO EVEREST BANK LTD., NEPAL SBI BANK LTD. AND STANDARD CHARTERED BANK NEPAL LTD.)"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of Lec. Dr. Ramji Gautam of Bhairahawa Multiple Campus.

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I have tried to cover all the possible matters that I felt, important to sum up all the "**MOBILIZATION OF DEPOSITS AND REINVESTMENT ASPECTS OF COMMERCIAL BANKS IN NEPAL (WITH REFERENCE TO EVEREST BANK. LTD., NEPAL SBI BANK LTD. AND STANDARD CHARTERED BANK NEPAL LTD.)".** I am hopeful that this task will be helpful to the students of business studies & those who want to make further researchers under this topic.

**RUCHI BAJRACHARYA**

Researcher

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# ABBREVIATIONS

| | | |
|---|---|---|
| A.D. | : | Anno Domini |
| A/C | : | Account |
| AGM | : | Annual General Meeting |
| ATM | : | Automatic Teller Machine |
| B.S. | : | Bikram Sambat |
| C.V | : | Coefficient of Variation |
| CBs | : | Commercial Banks |
| EBL | : | Everest Bank Limited |
| F/Y | : | Fiscal Year |
| i.e. | : | That is |
| JVBs | : | Joint Venture Banks |
| Ltd. | : | Limited |
| NBL | : | Nabil Bank Limited |
| NRB | : | Nepal Rastrya Bank |
| NSBI | : | Nepal State Bank of India |
| P.E. | : | Probable Error |
| r | : | Coefficient of Correlation |
| RBB | : | Rastrya Banijya Bank |
| ROE | : | Return on Equity |
| Rs. | : | Rupees |
| S.D. | : | Standard Deviation |
| SCBNL | : | Standard Chartered Bank Nepal Limited |
| TU | : | Tribhuvan University |

# CHAPTER - I

# Introduction

## 1.1 Background of the study

Banks play a significant role in the development of a country. Bank is a resource which maintains the self confidence of various segments of society and extends credit to the people. The financial sector is an indispensable part for the upliftment of a country. The financial sector is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange, foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in living standard of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions and commercial banks have become the base for measuring the level of economic development of a country.

Nepal is one of the least development countries of the world. Poverty has stood as a serious challenge to the country. Along with the problems of basic needs; the nation is not able to produce the national requirements of goods and services. In such context, it is realized that without industrial development, it is impossible to have social and economic development. So for industrial and economic development, banks play the vital role.

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

Commercial bank is a corporation which accepts demand deposits, subject to check and make short term loan to business enterprises, regardless of the scope of its other services. Nowadays, Joint venture Banks (JVBs) are increasing in Nepal. Nepal Arab Bank Ltd. (Currently named as Nabil Bank Ltd.) was the first joint venture bank established in 1984 with 50% invest by

Dubai Bank Ltd. of UAE and of remaining 50% Nepalese financial institutions comprises 30% and 20% by general public.

In global perspective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups of industries and trades to achieve mutual exchange of goods and services for sharing comparative advantages. A Joint Venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production or trade).

Joint venture banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post shipment finance to exporters. They start their operation with automated system which could easily attract the elite group of business community due to their prompt served modern management. In this way, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade, introduce new techniques and technologies. All these reveal the vital role and the need of joint ventures in Nepalese banking sector or financial service industry.

The development of the country is always measured by its economic development through economic indices. Therefore, every country has given emphasis on enlistment of its economy. Nowadays, the financial institutes are viewed as catalyst in the process of the economic growth and the mobilization of the domestic resources is the key factor in the economic development. The financial institutes act as intermediaries by transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, Commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country. The economic activity of the country can hardly be carried forward without the assistance of financial institutions. They are indispensable part of the development process.

Commercial banks play an important part for economic development of a country as they provide capital for the development of the industries, trade, and business by investing the saving collected as deposits from the public. They render various services to their customers facilitating their economic and social life. Therefore, a competitive and reliable banking is essential to the nation for the development.

Nowadays, there is very much competition in different fields, so in banking sector as well, but less opportunity to make investment. In this condition, joint venture banks can take initiation in search of new opportunity, so that they can survive in the competitive market and earn profit. But investment is the very risky job. For a purposeful, safe and profitable investment, banks must follow a sound investment and fund mobilizing policy.

In recent period, many commercial banks are providing consumer financing facilities. They provide direct housing loan, home equity loan, vehicle loan, education loan, loan for household appliances, etc. These all activities affect the cash flows, liquidity and profitability of the banks.

The study is basically related to analyze the excess idle funds and limited investment opportunities in the commercial banks. The study has been done with special reference to Nepal SBI Bank Ltd., Standard Chartered Bank Ltd. and Everest Bank Ltd.

### 1.2 Focus of the study

Deposit mobilization refers to as using money to get long term benefit. Investment in its broad sense means the sacrifice of certain present value for (possible uncertain) future value.

The present economic position of Nepal is encouraging the savers to deposit their money in banks rather than investing in stocks, assets and new business etc., which in turn is hampering the bank's portfolio because deposits are higher, and limited safe investment areas are decreasing day by day.

In spite of low interest rate, the depositors are feeling secured towards commercial banks but the highest surplus deposits are almost idle in the bank due to continuous fall in Nepalese economy because of instability economy of the country, changed taxation policy, and adversely affected tourism industry and agricultural industry.

The study focuses on the mobilization of deposits and reinvestment aspects of three banks viz. Nepal SBI Bank Ltd, Standard Chartered Bank Ltd. and Everest Bank Ltd. The study is mainly focused on the optimum portfolio between deposits and investment. It revolves round the concept of managing the surplus financial assets in which a way, which leads to the wealth maximization and provides a significant future source of income. It focuses on analyzing the causes of investment problems, their management and remedies, and developing the new investment areas and sectors which can again boost the Nepalese economy.

### 1.3 Statement of Problem

The need of deposit mobilization for economic development of a country is no more to question. But we are facing an acute problem of resource mobilization. We have 25 commercial banks in Nepal which are very much considered to be vital financial institutions to mobilize domestic resources. They have of course a good performance in the course of mobilizing idle deposits. Yet viewing our current economic situation, we need more improvement upon it.

The problems associated with commercial banks with regard of deposit mobilization and reinvestment aspects are highlighted below:-

a. Development works need short, medium, and long-term credit. But commercial banks, except in case of priority sector, provide only short-term credit.
b. The credit provided by commercial banks to the agriculture, industrial and service sectors (priority sector credit) are not satisfactory to the present need.
c. The interest payments are irregular due to high disturbance in the business market of Nepal.
d. The commercial banks are security minded except in priority sector loan. Moreover, the procedure of loan making is long and tedious.
e. Because of lack of banking knowledge, advertisement, bad social customs and habits, people who can save money, are also like to spend on unproductive activities like purchasing land, making building, owning ornaments, etc.

### 1.4 Objectives of the study

The main objective of the study is to find out the ways of utilizing the surplus deposit funds and the right reinvestments in the economic development of the country. The specific objectives of the study are as follows:-

a. To analyze the deposit position of the banks under study.
b. To analyze the reinvestment position.
c. To analyze the gap between deposits and loan & advances.
d. To synchronize the deposits with the investments.

### 1.5 Significance of the Study

The proper mobilization & utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic prosperity of the nation. The success and prosperity of the banks relies heavily upon the successful formulation and effective implementation of investment policy.

The significances of the study are pointed out below:-

a. The study helps to know how well the banks (Everest bank Ltd, Nepal SBI Banks Ltd. and Standard Chartered Bank Ltd.) are utilizing their deposits.
b. The study is important to policy makers and academic professionals to formulate policies and plans on the basis of the performance of these banks.
c. The study helps these banks to compare each other's performance and plan accordingly for future.
d. The study helps these banks to make sound programs and policies based on the recommendation suggested.
e. The study guides to investors, customers (depositors, loan takers as well as other types of clients), competitors, personnel of the banks, stockbrokers, dealers, market makers, etc. to take various decisions regarding deposits and borrowings.

Moreover, the study will be fruitful to students and various other groups having interested in banking sectors. The study will help to increase their knowledge regarding deposits and investment situations of Nepalese commercial banks.

## 1.6 Limitations of the study

The study is conducted for the partial fulfillment of MBS, so it possesses some limitations of its own kind. The limitations of the study are follows:-

a. The study is based on secondary data so it may contain reporting errors.
b. The study is made taking the sample of only three banks viz. Nepal SBI Bank, Standard Chartered Bank Ltd. and Everest Bank Ltd.
c. The study covers the past and present state of the commercial banks in Nepal and will not make any projection in future.
d. The study is made within limited timeframe, limited data, and with lack of research experiments.
e. The study covers the data of only five fiscal years from 2003 to 2007 and the conclusion drawn confines only to the above period.

## 1.7 Chapter Plan

The whole study is mainly divided into five different chapters. They are:-

Chapter I Introduction
Chapter II Review of literature
Chapter III Research methodology
Chapter IV Analysis and presentation of Data
Chapter V Summary of findings, conclusion and recommendations.

Chapter I is the introduction chapter. It includes Background of the study, Focus of the study, Statement of problems, Objectives of the study, significance of the study, Limitation of the study and Chapter Plan.

Chapter II deals with review of literatures, which includes Conceptual/theoretical review, and Review of related studies.

Chapter III is Research methodology which includes Research design, population and sample sources of data, data collection technique and data analysis tools.

Chapter IV deals with the various analysis and interpretations of data like analysis of sources and uses of fund of commercial banks, analysis of deposits, loan & advances and investments of Nepal SBI Bank Ltd., Standard Chartered Bank

Ltd., and Everest Bank Ltd., financial and statistical analysis and analysis of primary data. It also shows major findings of the study.

Chapter V includes summary and conclusions of the study. It also deals with recommendations suggested.

# CHAPTER - II

## Review of Literature

Literature Review is basically a "Stock Taking" of available literature in one's field of research. The literature survey, thus, provides us with the knowledge of the status of their field of research. Therefore this chapter has its own importance in the study. (Wolff & Pant, 2000:p30).

This chapter includes the review of previous studies, articles, and conceptual framework for the related studies. To present the real framework of the study, mere analysis is not enough and review of some related materials should be dealt with to give the research a clear vision. Past study knowledge provides foundation to the present study. Under this chapter, following parts have been analyzed & presented:

a. Conceptual/Theoretical review
b. Review of Related Studies

### 2.1 Conceptual/Theoretical Review

It is basically concerned with the theoretical part relevant to the topic.

#### 2.1.1 Origin of Bank

There are different opinions on the origin of the bank. According to one opinion, the term bank was originated from Italian word '*Banco*' which meant bench. The money exchangers at that time kept heap of money on the bench from which came the use of word 'Banko'. In the opinion of Macleod, since banko means 'heap', it denotes the joint fund contributed by many persons.

The origin of the word 'Bank' is linked to:

German word 'Bank' means a joint stock company.

Latin word 'Bank' means a bench.

Italian word 'Bank' means a bench.

French word 'Banquet' means a bench.

Money lenders in the streets of major cities of Europe used benches for acceptance & payment of valuable coins. When they are unable to meet their liabilities, the depositors used to break their benches. Hence the word ‘Bankruptcy’ is derived thereof.

The term bank was first used in Italy in 1157A.D. in 12$^{th}$ century. The first bank was set up in Venice, Italy as a public bank, by the name ‘Bank of Venice’. Subsequently, ‘Bank of Barcelona’ in 1401A.D. & ‘Bank of Geneva’ were established. In 1609A.D, “Bank of Amerterdam’, a famous bank was established. In reality, the history of modern banking had started from ‘Bank of England’ in 1694A.D. But the modern joint stock banks were established in England only in 1833. In 1844 AD., ‘Bank of England’ was established as a first central bank in the world. The ‘Banque De France’ was established in France in 1807A.D. Later, the banks were established in other parts of the world.

### 2.1.2 Concept of Bank

Generally, an institution established by law, which deals with money & credit is called bank. It is obvious that in a common sense, an institution involved in monetary transactions is called bank.

A bank is a financial institution which plays a significant role in the country. It facilitates the growth of trade & industry, & boost national economy. However, a bank is a resource of economic development which maintains the self-confidence of various segments of society & extends credit to the people.

A bank is a business organization that receives & holds deposits of funds from others, makes loans or extends credits & transfers funds by written orders of depositors (The Encyclopedia America, 1984, Vol.3:p302).

The business of the banking is collection of funds from community & extending credit to people for useful purposes. Bank plays a vital role in making money from lenders to borrowers. Bank is a profit seeking business, not a community charity profit seeker. It is expected to pay dividend & otherwise, add to the wealth of shareholders. (Encyclopedia “The World Book”, 1984:p6)

Hence, in concise, we can say that there is no single universally accepted definition of bank. In brief, it is an institution which accepts deposits in different accounts, provides loans of different types, and creates credit.

### 2.1.3 History of Banking in Nepal

The history of banking in Nepal is not very old. It goes at least back to the Lichchhavi era. There were 'Gosthies' to work as credit banks established under the permission of Royal order & they were conducted through local legislation called 'Panchali'. Then the King Jayasthiti Malla from Malla dynasty, allowed 'Tankadhari', a class of people, to deal in depositing & lending of money & ornaments. The Banda who still worked in ornaments used to deal in lending & depositing the ornaments in that time also. Then came the King, Ram Shah, in developing the banking system in Nepal. He found that unorganized lending were taking place in the society at very high interest rates. So, he fixed up the interest rates of lending.

Though it seemed realizing the development of banking in those early times, it could not be materialized till the end of Rana regime. The first government institutionalized credit house called 'Tejarath Adda' was established during the tenure of Prime Minister, Ranoddip Singh (1993-1994B.S.). The 'Tejarath Office' used to give loans to government employees against the securities of gold, silver, etc.

Banking in true sense started with the inception of Nepal Bank Limited on 30$^{th}$ Kartik, 1994B.S. as the first commercial bank of Nepal under Nepalese Banking Law & the Nepal Bank Act 1994B.S. formulated by the Industrial Board of Nepal.

After that Nepal Rastra Bank was established as a central bank on 14$^{th}$ Baisakh, 2013 under Nepal Rastra Bank Act, 2012B.S. The bank was empowered by the Act to have direct control over banking institution of the country to manage the circulation of national currency along with foreign exchange rate. Then came Rastriya Banijya Bank established on 10$^{th}$ Magh, 2022B.S. established under Rastriya Banijya Bank Act, 2021B.S.

Nepal Arab Bank Limited was established on 26th Ashar, 2041B.S. as a first joint venture bank in Nepal opened under Banijya Bank Act, 2031B.S. Having observed the success of Nepal Arab Bank Limited (currently named as Nabil Bank Limited) & of liberal economic policy adopted by the government, various other commercial banks including joint venture banks & privately ownership banks established in Nepal.

### 2.1.4 Commercial Banks & Their Functions

Commercial banks are that financial institutions which deal in accepting deposits of people & institutions & giving loans against securities. They provide working capital needs of trade, industry, & even to agricultural sector. Commercial banks also provide technical & administrative assistance to trade, industries, & business enterprises. Commercial bank is a corporation which accepts demand deposits, subject to check & makes short term loan to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money & substitutes for money, such as cheque or bill of exchange. It also provides a variety of financial services (The New Encyclopedia Britanica, 1985, Vol.14:p605).

The American Institute of Banking has laid down for functions of the commercial banks i.e. receiving & handling deposits, handling payments for its clients, granting loan & investment & creating money by extension of credit (Principle of Bank Operation, U.S.A.:p609).

Principally, commercial banks accept deposits & provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy.

In the Nepalese context, a commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans, & performs commercial banking functions (Commercial Bank Act, 1974).

Commercial banks are those banks which pool together the savings of the community & arrange for their productive use. They supply the financial needs of modern business by various means.

They accept deposits from the public on the condition that they repayable on demand of on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade & industry such as working capital financing. They can not finance in fixed assets. They grant loan in the form of cash, credits & overdrafts. Apart from financing, they also render services like collection of bills & cheques, safe keeping of valuables, financial advising, etc. to their customers.

A commercial bank can be defined as an institution which deals in money. Banks collect money from those who have it to spar or who are saving it out of their income & lend this money out against good security to those who require it (Crowther 1985:p58).

In Nepal, 25 commercial banks are operating so far. They are:-

- Nepal Bank Limited
- Rastriya Banijya Bank
- Nabil Bank Limited
- Agricultural Development Bank Limited
- Standard Chartered Bank Limited
- Himalayan Bank Limited
- Siddhartha Bank Limited
- Nepal Bangladesh Bank Limited
- Nepal SBI Bank Limited
- Everest Bank Limited
- Lumbini Bank Limited
- Nepal Industrial & Commercial Bank Limited
- Kumari Bank Limited
- Nepal Investment Bank Limited
- Bank of Kathmandu Limited
- Laxmi Bank Limited
- Machhapuchhre Bank Limited
- Nepal Credit & Commercial Bank Limited
- Global Bank Limited

- Citizens International Bank Limited
- Prime Commercial Bank Limited
- Bank of Asia Nepal Limited
- Sunrise Bank Limited
- Development Credit Bank Limited
- Nepal Merchant Bank Limited

*Source: www.nrb.org.np*

The commercial banks in Nepal are categorized into four groups viz. the fully government owned bank, Rastriya Banijya Bank; the government & private sector bank, Nepal Bank Limited; the JVBs consist of Nabil Bank Ltd., Standard Chartered Bank Ltd., Himalayan Bank Ltd., Nepal Bangladesh Bank Ltd., Nepal SBI Bank Ltd., Everest Bank Ltd.; & the privately owned banks comprise of Lumbini Bank Ltd., NIC Bank Ltd., Kumari Bank Ltd., NIB Ltd., Bank of Kathmandu, Laxmi Bank Ltd., Machhapuchhre Bank Ltd., NCC Bank Ltd., and Siddhartha Bank Ltd., Global Bank Limited, Citizens International Bank Limited, Prime Commercial Bank Limited, Bank of Asia Nepal Limited, Sunrise Bank Limited, Development Credit Bank Limited & Nepal Merchant Bank Limited.

However, central bank is the main bank of any nation that directs & controls all other banks. In Nepal, Nepal Rastra Bank is the central bank & all the commercial banks perform their functions under its rules, regulations, & directions.

**Functions of Commercial Banks**

Commercial banks are the most important types of financial institution for the nation in terms of aggregate assets. Traditional functions of commercial banks are only concerned with accepting deposits & providing loans. But modern commercial banks work for overall development of trade, commerce, services, & agriculture also. The business of banking is very broad in modern business age. The number & variety of services provided by bank will probably expand. Recent innovation in banking include the introduction of credit cards, accounting services for business firms, factoring, leasing, participating in the Euro-dollar market, & lock-box banking. The main functions of commercial banks are as follows:-

a. **Accepting Deposits**: -

According to Sir John Padget, "It is fair deduction that no person or body, corporate or otherwise, can be banker who does not take deposits, issue & pay cheques, & collect cheques from his customers. Here, all functions are related with the acceptance of deposits. Therefore, accepting deposits by bank is the oldest function of bank.

A bank accepts deposits in three forms viz. saving, current & fixed.

i. Saving Account: Saving deposit is one of the deposits collected from small depositors & low income depositors. The banks usually pay small interest to depositors for their deposits.

ii. Current Account: Current account is also known as demand deposits. Under this, any amount may be deposited. There are no restrictions regarding number & amount of withdrawals as contrary to saving account. The banks don't pay any interest on such account but charge small amount on the customers having current account.

iii. Fixed Account: A fixed or time deposit is one where customers are requested to keep a fixed amount in the bank for specific period, generally by those who don't need money for stipulated time. The bank pays a higher interest on such deposits.

b. **Advancing Loans**: -

The second major function of a commercial bank is to provide loans & advances from the money which it receives by way of deposits for the development of industry, trade, commerce, services, & agriculture. The main purpose of commercial bank is to boost up the development and pace of communities with the economy as a whole.

c. **Agency Services**: -

The bank also performs number of services on behalf of the customers. The following are the agency functions provided by the bank.

- Dealing with the transaction of foreign exchange business
- Serving as an agent of correspondent on behalf of the customers

- Issuing letter of credit, circulate note, traveler’s cheques, etc.
- Purchasing & selling different kinds of securities & remitting funds
- Keeping valuable article in safe custody
- Providing financial advice to various persons & bodies whenever required

**d. Creating Money**: -

The major function of the bank that separates it from other financial institution is the ability to create money & to destroy money which is accomplished by lending & investing activities. The power of the commercial banking is of great economic significant as it results in the elastic credit system that is necessary for the economic progress at a relatively steady growth rate (American Institute Banking 1972:p149).

### 2.1.5 Resources of Nepalese commercial Banks

Commercial banks have mainly three sources for their advancing. They are as follows:-

a. Capital: - As far as the capital fund is concerned, it is only a nominal source. Therefore, it can be used for investment purposes. This capital fund consists of two elements- paid up capital & general reserve.
b. Deposits: - Deposits are the main resource of the banks for advancing loans. It is received from different forms & accounts. There are mainly three types of deposits viz. saving, current, & fixed. In a developing country like Nepal where the majority of people are still poor, saving deposits has played a significant role in the development of a country. Therefore, the main source of raising capital is deposits. Ronald (1962) rightly says, “The deposit function of the bank is important because it has to aggregate small sums of money lying scattered here & there like twenties, fifties, & hundreds. Singling these sums has no economic efficiency what so ever but they can accomplish herculean tasks when they are aggregated & employed by the banker” (p.20).
c. Internal & External Borrowing: - Internal & external borrowing are very important for a developing country like Nepal. Commercial banks alone can not fulfill the necessity of the society. Therefore, they are allowed to borrow from internal & external sources. Generally, external borrowing means the borrowing from foreign bank, foreign

government, IBRD, IMF, etc. Internally, the banks can borrow from only one source i.e. from NRB.

### 2.1.6 Joint Venture Banks & Their Roles

Joint Venture banks are the mode of trading to achieve mutual exchange of goods & services for sharing comparative advantages by performing joint investment scheme between Nepalese investors, financial, non financial institute as well as private investors & their parent banks each supplying 50% of total investment. The parent banks, which have been experiencing highly mechanized & efficient modern banking management skill & an international banking institutions, JVBs are formed in Nepal as full-fledged commercial bank under the Economy Act, 2021B.S. & operated under the Banijya Bank Act 2032B.S.Joint venture is a joining of force between two or more enterprises for the purpose of carrying out a specific operation (Industrial & commercial investment production or trade).All the Nepalese JVBs are established & operated under the rules, regulations & guidance of NRB. NRB has issued a certain direction to the banks regarding the mandatory credit allocation to the priority sector. The NRB has directed to the government owned banks to invest 3% & the JVBs to invest .05% of their total outstanding credit to the priority sector. Nepal Government's deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run commercial banks enhancing their banking capacity through competition, efficiency, modernization, & mechanization via computerization & prompt customer service.

**Roles of Joint Venture Banks**

JVBs pose a serious challenge to the existence of the inefficient native banks. But the same challenge can be taken as an opportunity by the domestic banks to modernize them & sharpen their competitive zealous. It is undoubtedly true that the JBVs are already playing an increasingly dynamic & vital role in the economic development of the country.

a. <u>Introducing new methods & technology in banking services</u>: - The JVBs have invited a new era of banking in this remote Himalayan kingdom by introducing high technology & efficient methods in the banking business. Other areas of expertise are forward cover for foreign exchange transaction by importers & exporters, merchant banking, inter-bank market for money & securities, arranging foreign currency loans, etc.

b. Providing new services: -Even though the JVBs so far have not provided any remarkable new services that were not offered by the domestic banks, they have drawn a large number of customers who assume that they will eventually benefit from their association with these banks when they introduce new services. At present, a speedy service than that of the domestic banks is the hallmark of the JVBs though their services are basically in traditional areas. This could highly be educative for the domestic banks.

c. Offering better links with international market: - The JVBs are usually better placed to raise resources internationally for viable projects in a developing country like Nepal mainly due to their creditability & an access to international markets. In other words, it is very much essential for Nepalese business to produce international linkage through JVBs.

d. Creating a competitive environment: - The JVBs have created a competitive environment in banking business in Nepal. Prior to arrival of JVBs, there was little competitive zeal between NBL & RBB as they had almost set bunch of customers, working areas, & services. This competitive environment will benefit the local people, business & industry, and the country as a whole.

e. Providing more resources for investment: - The JVBs have played a significant role in channeling additional resources for investment for the development of the country. Although it is argued by many that resources raised to locally in the prevailing market those resources would have been mobilized net additional resources if they have tapped so far untapped resources in the local market.

### 2.1.7 Deposit & Its Types

It is important that the commercial bank's deposit policy is the most essential policy for its existence. The growth of bank primarily depends upon the growth of its existence. The volume of funds that management will use for creating income, through loans & investment, is determined largely by the bank's policy governing deposits. In other words, when the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposits creating powers of the banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors & not by the bank's management. There are regular changes in this view in the modern banking industry. Thus, the banks have evolved from relatively passive acceptors of deposits to achieve bidders for funds. Deposit is one of the aspects of the bank liabilities that management has been influencing through deliberate action.

Bank deposits arise in two ways. The first is when the banker receives cash & credits customer's account. It is known as a primary or a simple deposit. Such primary deposit is made from the initiative of depositors. The second, when the bank advances loans, discounts bills, provides overdraft facilities, makes investments through bonds & securities. This is called derived deposit of derivative deposit. They add to the supply of money. Banks actively create such deposits (The Encyclopedia Britanica, 1981:p700).

**Types of Deposits**

At the outset, it is necessary to know what a deposit is. Commercial Bank Act 2031, defines deposits is the amounts deposited in a current, saving or fixed accounts of a bank or financial institution. People in general, the businessmen, the industrialists, & other individuals deposit in a bank. Actually, such amount is the main source of capital for the bank. Bank, flows such amount as loan & invest in different sectors to earn profit. Usually, the bank accepts three types of deposits. They are current, saving, & fixed. But in other countries, we find more than three deposits. In Nepal, The bank grants permission to their customers to open three types of accounts under various terms & conditions. This classification is made on different theoretical & financial basis. Therefore, deposits of the bank are classified on the following basis:-

a. Demand Deposit: -

   The deposit in which an amount is immediately paid at the time of any holder's demand is called demand deposit. In other words, it can also be called as current account. Current account means an account of amounts deposited in a bank which may be drawn at any time on demand. Its transaction is continual & such deposits can not be invested in productive sector. So, such type of amount remains as stock in the bank. Though the bank can not gain profit by investing it in new sector after taking from the customer, this facility is given to the customers. Therefore, the bank does not give interest on this account. From such deposit, the merchants & traders are benefited more than the individuals. The bank should pay as many times as the cheque is forwarded until there is deposit in his/her account. The bank can't impose any conditions & restrictions in demand deposit. An institution or an individual, who usually needs money daily, proceeds his/her acts & transactions through such deposit. The current account is very important for the customers of the bank.

b. Saving Deposit: -

The bank can collect capital through the saving deposit as well. This deposit is also important and its necessity and scope is not negligible. According to the Commercial Bank Act 2031, saving account means an account of amounts deposited in a bank for saving purposes. This account is suitable & appropriate for the people of middle class, farmers, and the labours having low income, officials
& small businessmen. This saving deposit bears the features of both the current & fixed period deposits. Generally, most accounts are opened on saving deposit in a bank.

Therefore, this deposit is popular in people in general. According to internal rules of banks, some banks demand a small amount & some demand a great deal of money to open saving account. Banks give interest on it.

c. Fixed Deposit: -

Under the Commercial Bank Act 2031, fixed account means an account of amounts deposited in a bank for a certain period of time. The customers opening such account deposit their money in this account for a fixed period. In other word, it is called time deposit because this amount is deposited for a certain period.

Usually, only the person or the institution who wants to gain more interest opens such type of account. The period of time can be 3 months, 6 months, 9 months, 1 year, 2 years, 3 years, etc. more interest rate is payable in this deposit than other deposits. Both parties, the bank & the customers, can take benefit from this deposit. The bank invests this money on the productive sector gaining profit thereby & the customers too can make his financial transaction stronger by getting more interest from this deposit. The amount collected in the fixed deposit must be returned to the customer after the date is expired. The amount can't be withdrawn before the fixed time. (Bhandari, 2003:p73-76).

### 2.1.8 Mobilization of deposits

Collecting scattered small amount of capital through different Medias and investing the deposited or collected fund in productive sector with a view to increase the income of the depositors is meant deposit mobilization. It also supports to increase the saving through the investment of increased of extra amount (NRB, Bankers Prakashan, 1984, No.24:12).
When we discuss about the deposit mobilization, we are concerned with increasing the income of the low income group of people & to make them able to save more & to invest again the collected amount in the development activities (NRB, Bankers Prakashan, 1984, No. 24:p10).

The main objective of the deposit mobilization is to covert the idle saving into active saving (NRB, Nepal Bank Patrika, 2037, No.4:p7).

In developing countries, there is always the shortage of capital for the development activities. There is the need of development in all the sectors. It is not possible to handle and develop all the sectors by the government alone at a time. Private people also can't undertake large business because the per capita income of the people is very low and there propensity to consume is very high. Due to the low income, their saving is very low and capital formation is also very low. So, their saving is not sufficient for caring developmental works.

To achieve the higher rate of growth and per capita income, economic development should be accelerated "Economic development may be defined in a very broad sense as a process of rising income per head through the accumulation of capital" (Johnson, 1965:p11). But how capital can be accumulated in the developing countries? There are two ways of capital accumulation in the developing country which are external and internal sources. In the first group, foreign aid, loans and grants are the main, while in the later, financial institutions operating within the country play a dominant role. In the context of Nepal, commercial banks are the main financial institutions which can play very important role in the resource mobilization for the economic development. Trade, industry, agriculture, and commerce should be development for the economic development.

Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sectors to increase employment and national productivity. Deposit mobilization is the most important source of the capital formation. (RBB, Upahar, 2055, NO. 4:p14).

Banking transaction refers to the acceptance of deposit from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of the certain period according to the banking rules and regulations. This definition clearly states that deposit mobilization is the starting point of banking transactions. Banking activities can be increased as well as the accumulated deposit can be mobilized effectively (NRB, Nepal Bank Patrika, 2037, No.4:p7).

A commercial bank changes the scattered unproductive small savings into loanable & active savings. The bank not only collects saving, but also provides incentives to the savers & helps them to be able to save more (RBB, Uphahar, 2054, No.3:p15).

Commercial banks are set up with a view to mobilize national resources. The first condition of national economic development is to be able to collect more & more deposits. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization (RBB, Uphahar, 2054, No. 3:p20).

**2.1.8.1 Needs for Deposit Mobilization**

The following are the reasons for why deposit mobilization is needed in a developing country like Nepal. Workshop report “Deposit mobilization why & how” (NRB, Banker’s Prakashan, 1984, No.24), Group “A” states the following points as the needs for deposit mobilization:-

- Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms within the country.

- It is much more important to canalize the collected deposit in the priority sectors of a country. In our developing country, we have to promote our business & other sectors by investing the accumulated capital towards productive sectors.
- The need for deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can be forwarded buying unnecessary & luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.
- Commercial banks are playing a vital role for national development Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors, but also in other sectors like food grains, gold & silver, etc. Though these loans are traditional in nature & are not helpful to increase productivity, but it helps, to some extent, to mobilize bank's deposits.
- To increase saving is to mobilize deposit. It is because if the production of agriculture & industrial products increases, it gives additional income which helps to save more, & ultimately it plays a good role in deposit mobilization (p.10).

Low national income, low per capita income, lack of technical know-how, vicious cycle of poverty, lack of irrigation & fertilizers, pressure of population increase, geographical condition, etc. are the main problems to bring economic development in a UDC like Nepal. Deposit mobilization helps in capital formation & thereby plays a vital role in economic development of a country.

### 2.1.8.2 Advantages of Deposit Mobilization

In that report, Group "B" states the following points as the advantages of deposit mobilization:-

- Circulation of idle money: - Deposit mobilization helps to circulate the idle money. The meaning of deposit mobilization is to convert idle saving into active saving. It helps the depositor's habit of saving on one side, & it also helps to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors. Again, investment in productive sector helps directly in country's economic development, & also increases investor's income.
- To support in fiscal & monetary policy: - Fiscal policy of the government &

monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. It helps to canalize idle money in productive sectors. Again, it helps in money supply, which saves the country from deflation & helps central bank in achieving the objective of monetary policy.

- To promote cottage industries: - Deposit mobilization is needed to facilitate cottage industries located in rural& urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it is helpful not only to promote cottage industries in the area, but also supports in the development of the locality as a whole, increasing employment & income of the local people.
- Capital formation: - Capital plays a vital role for the development of industries. But in an underdeveloped country, there is always lack of capital to support such industries. Capital formation & industrialization is possible through deposit mobilization.
- Developing of banking habit: - One of the important sides of economic developing country is to increase banking habit in the people. Deposit mobilization helps in this aspect. If there is proper deposit mobilization, people believe bank & banking habit develops in people.
- To check the misutilization of money: - Mostly our customs & habits are supported by social & religious beliefs. There is also tendency of copying others & to show their superiority buying unnecessary & luxury items in our society. In such society, deposit mobilization proves a tool to check the misutilization of money.
- To support government development projects*:* - *Every* underdeveloped country's government needs a huge amount of money for development projects. The deposit collected by the banks can fulfill to some extent the need of money of the people.
- Co-ordination between different sectors*:* - Deposit mobilization helps to collect capital from surplus & capital hoarding sectors. The fund can be invested for the needy sectors. Thus, it helps to fulfill the gap between these two different sectors. Earning interest in their deposit & the needy sector receiving loan & advances, benefits the surplus & hoarding sectors. Thus, it helps to keep good co-ordination between different sectors.
- Others*:* - Deposit Mobilization supports small savers by earning interests, helps to

the development of rural economy, protects villagers from being exploitation of indigenous bankers investment incentives, provides facilities to the small farmers to purchase tools & fertilizers, etc. (pp.12-14).

On this same report, Group “c” views that:-

Capital is needed for the economic development of a country. External sources are not dependable sources of capital. So, mobilization of internal resources has a great significance. This is the only way of receiving capital continuously for a long time.

Group “C” further states that there are various institutions which mobilize internal resources. These are commercial banks, insurance companies, post offices, etc. Among them, commercial banks are the effective & dependable sources mobilizing internal resources. This is due to the fact that commercial bank’s branches are scattered all over the country. Deposit mobilization not only helps in country’ economic development, it is also helpful to the depositor himself. The interest earned in the amount helps to raise the standard of living on one side & on the other, the depositor had right to draw the deposited amount at the time need (p.17).

So, commercial banks play an important role for the economic development not only in a developing country, but also in a developing country.

**2.1.9 Investment, Investment Policy, & Its Principles**

Investment is simply defined as the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifices of current consumption take place at present with certainty & the investor expects desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to invest now is a most crucial decision as the future level of wealth is not certain. Time & risk are the two conflicting attributes involved in the investment decision. Broadly, investment alternatives fall into two categories: real assets & financial assets. Real assets are tangible while financial assets involve contracts written on pieces of papers such as common stocks, bonds, & debentures. Financial assts are bought & sold in organized security markets.

**Investment Policy**

The investment policy is the most important strategy performed by the banks. The profit & the growth of the bank totally depend upon the decision taken by the banks to grant the loan. "Investment policy involves determining the investor's objectives & the amount of his/hr investible wealth. Because there is a positive relationship between risk & return for sensible investment strategies, it is not appropriate for an investor to say that his/her objective is to 'make a lot of money'. What is appropriate for an investor in this situation is to state that the objective is to attempt to make a lot of money while recognizing that there is some chance that large lose may be incurred. Investment objectives should be stated in terms of both risk & return" (Jack Clark Francis p.10).

Investment policy considers the three factor while investing on the projects they are time, risk & return.

**Principles of Sound Investment Policy**

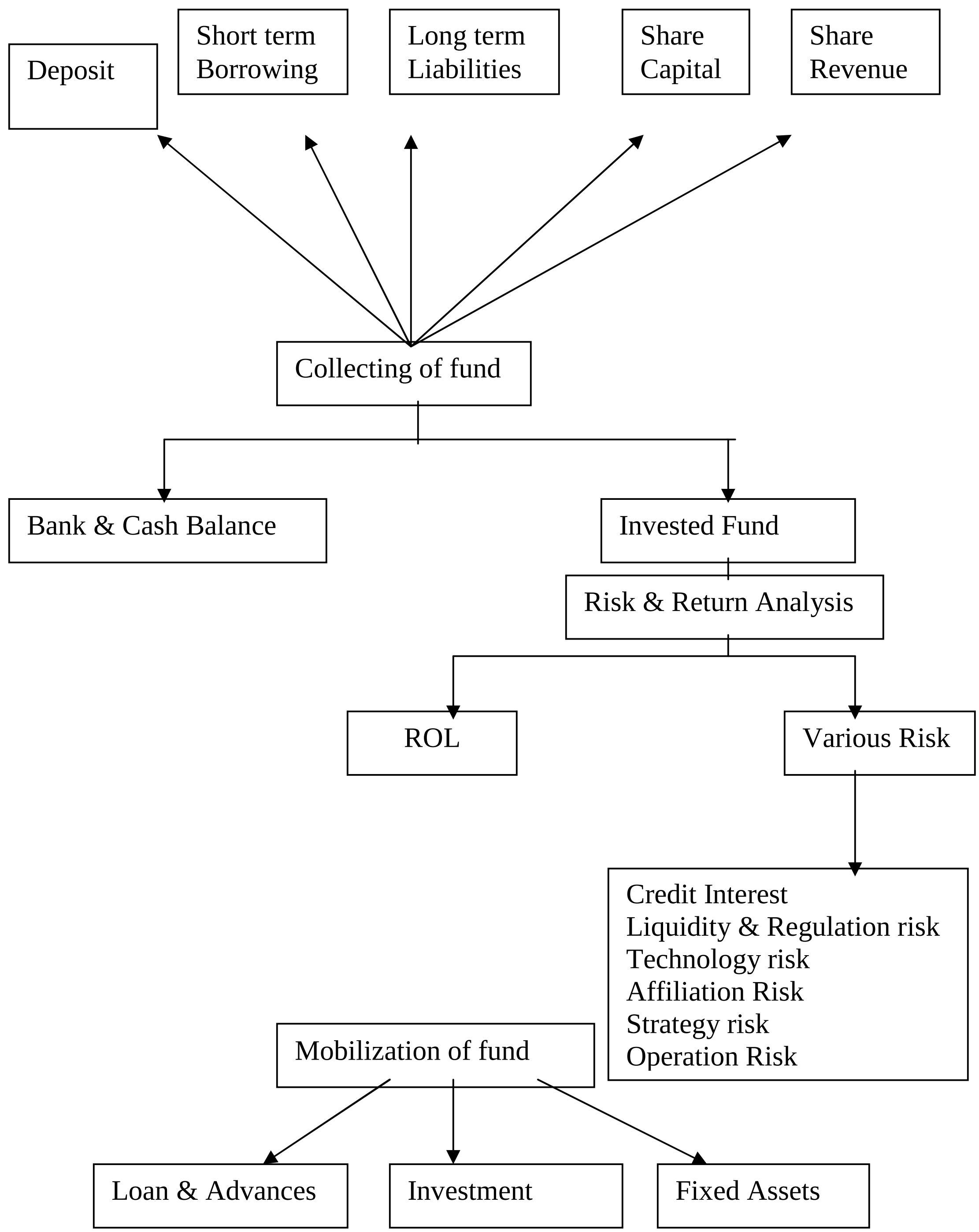
The principles of sound investment policy i.e. the features of sound lending policy are explained below: -

- Safety & security: - A bank should be very careful while planning the investment procedure & setting policy thereto. It should always be able to avoid investing in too much volatility because a little alteration may cause a great loss. It must not invest its funs without careful analysis of the proposal of the borrower. A bank must not invest funds in the speculative business. Such business may cause bankrupt at once & earn millions in a minute. Only commercial, durable, marketable, & high marked valued securities are good for investment to the commercial banks.
- Profitability: - There must be profit prospect in the project to make investment decision. It should select the most profitable investment area so that it can be able to maximize the shareholders' wealth. The profits of the commercial banks depend on the interest rate, volume of loan provide, maturity period, & the nature of investment.
- Liquidity: - Liquidity is the ability of the bank pay cash in exchange of deposit. People deposit their hard earned money in the bank making in the min that they will withdraw it when they need it. So, a bank should always try to maintain the liquidity

position. It should not invest all the money seeing the uncertain future profit. Once it losses the trust of the customers, the bank may be in the shortage of the funds in future. So, to have the customers' faith, banks should always maintain the liquidity.

- Purpose of loan: - Before sanctioning the loan to the customers, banks should learn the purpose of taking loan by the customers. If the seems to be for unproductive project which may yield nothing for the customers or the customers misuse the then he/she can never repay it on time. Therefore, banks nee the detail intention of the customers before granting loan.
- Diversification: - Diversification of the investment will reduce the risk. It can diversify the risk by investing in various sectors so that loss on one can be compensated by the profit of other. I t should not lay all its eggs on the same basket.
- Legality: - All the commercial banks are required to follow the directions given by NRB for the investment. Illegal method of investment seems good on short term but it will consequently hamper the bank leading towards bankruptcy as well.

## A General Investment Procedure of Joint Venture Banks



### 2.2 Review of Related Studies

This part consists of a review of past studies conducted by other researchers which are relevant to the topic.

#### 2.2.1 Review of Journals & Books

According to **H.D. Crosse,** when funds are plentiful, market rate generally tend to decline, banks seek l0an aggressively and therefore lower their rates induce marginal borrower to come into the market. When funds are scare, banks raise their rates and come potential borrowers may differ the use of credit or seek it elsewhere (Crosse, 1963:p63 “Management Policies for Commercial Banks”.

**Sunity Shrestha** (2058B.S) has expressed her view on investment. The writer stresses on the fulfillment of credit needs of various sectors which insures investment. The investment lending policy of commercial bank is based on the profit maximization as well as the economic enhancement of the country (“Portfolio Behaviour of Commercial Banks in Nepal”, pp. 31-32).

According to **Cheney and Moses,** “The investment objective is to increase systematically the individual’s wealth defined as assets minus liabilities. The higher the level of desired wealth the higher the return must be received (John M Cheney & Edward A Moses, “Fundamental of Investment” pg.23).

Investors seeking higher return must be willing to face higher level of risk. Finance company being only a financial inter me diary, we will not be able to make any profit unless we mobilize funds suitably. It is from out of the interest, finance company earns on loan and advance, further he has to pay interest on deposit meet liquidity of cash balance. Meet establishment expenses keep some balance for reserve and pay dividend to the shareholders.

In the words of **Sharpe and Alexander, “**Investment in its broadest sense, means the sacrifice of certain present value for future value” (Sharpe F. William & Alenxander J. Gorden, “Investments”, p.39).

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

**Frank K. Reilly** defined "An investment may be defined as the current commitment of funds for a period of time to derive a future follow of funds that will compensate the investing unit for the time the funds are committed for the expected rate of inflation and also for the uncertainty involved in the future follow of funds (Reilly K. Frank, "Investment" p. 3)

As the view of **James B, Beslay**, "Investment policy is defined responsibility for the investment disposition of the banks assets in terms of allocating funds for investment and loan, and establishing responsibility for day to day management of these assets" (James B Beslay, "Banking Management", 1973).

### 2.2.2 Review of Articles

**Bodhi B. Bajracharya** (2047 B.S.) in the article, "**Monetary Policy and Deposit Mobilization in Nepal"** has concluded that the mobilization of domestic saving is one of the monetary policies in Nepal. For this purpose, commercial banks stood as the vital and active financial intermediary for generating resources in the form of deposit of the private sector so for providing credit to the investor's in different aspects of the economy (pp.93-97).

**Dr. M.J. Fry** (1974) in the article "**Resource Mobilization and Financial Development in Nepal"** says that the interest rate fixing authorities cause adverse effect on income distribution. Interest rate affects the saving and its mobilization. A high interest rate diverts the resources from unproductive tangible assets into financial claim. For Nepalese people and Nepalese undeveloped money and capital market, interest rate can be taken as an important weapon in mobilizing the internal resources. Higher interest rate pushed people to some money and it allows people to invest into best opportunities (Fry, 1974:p15).

**Mr. Shekhar Bahadur Pradhan**, (2053 B.S.) in his article "**Deposit Mobilization, its problem and prospects"** has presented that deposit is the life-blood of every financial institution like commercial bank, finance company, co-operative or non-government organization. He further adds consider the most of banks and finance companies that the latest figure does produce a strong feeling that serious review must be made on problems and prospects of deposit sector. Leaving few joint venture banks, other organizations rely heavily on the business deposit and credit disbursement.

The writer has highlighted following problems of Deposit Mobilization in Nepalese context:

- Most of the Nepalese do not go for saving in institutional manner, because of lack of good knowledge. However, they are very much used of saving in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawn system, and availability of deposing facilities and so on.
- There is unavailability of the institutional services in rural areas.
- Due to lesser office hours of banking system people prefer holding cash in the personal possession.
- There is no more mobilization and improvement of the employment of deposits and loan sectors.
- The writer has also recommended the following points for the prosperity of deposit mobilization which are as follows:
- By providing sufficient institutional services in the rural areas.
- By cultivating the habit of using rural banking unit.
- By adding service hour system to bank.
- Nepal Rastra Bank should organize training program, to develop skilled manpower.
- By spreading co-operative to the rural areas development mini branch services (pp.9-10).

**B. Sharma** (2000) on his title, "**Banking the future on competition"** found that all the commercial banks are establishing and operating in urban areas. His achievements are:

a. Commercial banking are charging rate of interest on lending.
b. Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the RBB and NBL have branches in rural areas.
c. They do not properly analyze the credit system. The researcher further states that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible (Sharma, 2000:13).

**Dr. P.K. Kafle** (1990) in the topic, "**Monetary and financial reports in Nepal"** states that consolidation and liberalization of interest rate measure is initiated with a view to provide more option to commercial banks in the mobilization of saving and portfolio management through market determined interest and lending rates.

**J.N. Willamson** (1998) in the topics, "**Personal saving in developing nations"** Found that saving and investment decisions are highly interdependent in Asia sectors interest rate. Mostly household people try to save money for short period. Its influence is less in the long run saving decisions (p.25).

**F. Morris** (1980) in his discussion paper "**Latin America's banking system in the 1980's"** has concluded that most of banks concentrated on compliance with central bank's rule on resource requirement, credit allocation, and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely, operating efficiency and soundness of bank investment management has largely been overlooked, The huge losses are found in the bank's portfolio in many developing countries and testimony to the poor quality of this ever sight investment function.

The writer adds that mismanagement in financial institution has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk diversification of lending and investment, high risk concentration connected and insider lending, loan mismatching. This has led many banks of developing countries to the failure in 1980's.

### 2.2.3 Review of Previous Thesis

**D.P. Phuyal** (2035 B.S.), in his thesis entitled "**A study on the deposits and loans and advances of NBL"** has tried to examine relationship between deposits and interest rates and to find out the causes of decrease in the loans and advances of the bank. Data is used for five years from the year 2028 B.S. to 2033 B.S. only secondary data are used. Coefficient of correlation has been applied in order to calculate the loans and advances and deposits.

In the thesis, the writer has found that to increase the loan and advances, the bank should not only consider the security of its borrowers. When bank provides loan without security then the person can utilize in one sense and borrowing is benefited in other way. Bank also should invest its resources to the technicians to import their technical tools. Loan and advances has been decreased due to high rate of interest. So, interest rate must be decreased to increase investment of the bank.

The study conducted by **M.N. Karmacharya** (1978) entitled, "**A study on the deposit mobilization of NBL"** has tried to examine the role of NBL in the deposits accumulation and to see how far the bank is able to utilize the collected deposits. This study covers 8 years data from the year 1970 to 1977 and based on secondary data. Correlation, percentage and ratio analytical tools of statistics are used for the analysis and interpretation of data.

The writer found that the deposit credit ratio is only 52% on average which shows unutilized resources are increasing. The security marketing corporation which is recent established can play an active role for utilization of unutilized resources. The writer further found that NBL should not only concentrate in the extension of short term credit only. Bank should increase the level on priority sector and extent its branches to meet growing needs of the country.

A study conducted by **N.M. Pradhan** (2037 B.S) entitled; "**A study on investment policy of NBL"** has tried to find out to what extent NBL has been able to utilize mobilized deposits. This study is concerned only from 2029 B.S. to 2034 B.S. and mainly based on secondary data. Various statistical tools: coefficient of correlation for testing the relationship between the deposits and loan and advances, ratio analysis to compare different factor like loan and advances and deposit, bank's liquidity position, profitability condition etc.

The writer found that there is a greater relationship between deposits and loan and advances. Increase in deposits leads to increase in the loan and advances but when immense increase in the deposit leads to little bit increase in loan and advances. The writer also found that it could invest only 2.98% on the priority sector in 2034 B.S. bank could not mobilize its recourses. In the thesis, the writer recommended that the bank should invest more on agriculture sector and further says the bank should make clear cut policy to provide the loan. The bank should invest on risky sector to earn more profit and increase the rate of interest in deposit side and decrease in loan and advances.

The thesis conducted by **Sunity Shrestha** (2042 B.S) on the topics, "**A study on deposit mobilization and utilization of commercial banks with reference to NBL"** with the objectives is:

a. To sketch the deposit mobilization of NBL.
b. To analyze the impact of interest rate in deposit mobilization.
c. To analyze the impact of branch expansion on the deposit mobilization.

This study covers ten years data from the year 2031 B.S. to 2040 B.S. It is limited to deposits and loans and advances only. The study is primary based on secondary data. In this study, statistical tools like percentage changes, correlation test is done and to test its significance analysis, probable error test Is carried out.

On the theses, the writer found that NBL has been much sufficient in the collection of resources from the people in both urban and rural areas of the country but in the process of utilization, the bank is still behind. The interest rate has played important role in mobilizing and utilizing the resources of the bank. So, the structure of interest rate should be changed according to the need of nation. It is also suggested that to expand availability of banking services, branch expansions policy should be continued to mobilize resources as well as accelerate lending to productive sector.

This thesis conducted by **M. Neupane** (1986) entitled, "**Deposit mobilization of commercial banks in Nepal, comparative study of RBB and NBL Kirtipur Branch"** with the objectives of:

a. To examine whether RBB, kirtipur Branch is successful to complete with NBL, Kirtipur branch in relation to deposit and loan advanced.
b. To examine how for RBB, Kirtipur Branch is successful to provide door to door services to its customers in the collection of more deposits.
c. To examine how far the deposits of RBB, Kirtipur Branch have been efficiently mobilized.

This study covers deposit and credit during the year from mid-July 1976 to mid- July 1985 of RBB and NBL Kirtipur Branch. The study is based on both primary and secondary data. Karl's Pearson's formula of coefficient correlation has been used to compare various variables.

In thesis research, the writer has found that a comparative study of deposit between the two bank branches shows a good position of NBL branch's deposit comparison to RBB branch as well as credit position. The writer has also mentioned that the activities of the branch for mobilizing deposits seem to be idle. The branch has taken no steps for collecting more deposits or advancing more loans except the customers themselves knock the door of the branch. Lastly the researcher found that RBB Kirtipur branch is not successful to collect maximum deposit from the area it covers.

So, the researcher has recommended that local staff can play an active role in deposit mobilization. For so, at least four local staffs are suggested to appoint in the RBB branch out of 8 staff in deposit counter. He has further suggested that there should be a certain budget to the branch for advertisement about its activities and interest rates must be revised.

**U.L. Shrestha**(1987) conducted on the thesis entitled, "**A comparative study on resource mobilization of NBL and RBB,"** has tried to see the branch expansion of the banks as sector wise and to examine which bank is mobilizing its deposit property. This study covers the data from the year 1982 to 1986 and basically based on secondary data.

The writer found that Branch expansion of RBB is more than NBL but branch expansion activity of NBL is more than RBB in rural areas whereas in the urban areas as vice versa and the mobilization of total deposits of both banks are in increasing trend but RBB is rather efficient in mobilizing the saving deposit and time deposit than NBL.

**K.B. Karki**(2001), in the thesis entitled, "**An analysis of deposit Mobilization of RBB, Lahan Branch"** has tried to see the impact of interest rate on deposit mobilization also to know the efficient utilization of the accumulate deposit. This study is mainly concern with the RBB Lahan Branch. The data presentation anlalysis of deposits and loan advances is limited to the period of ten year from the year Mid-July 1990 to Mid- July 1999. Most of data are secondary type and applied the correlation coefficient as statistical tool. In the study, the researcher has found that RBB Lahan Branch is less successful to collect maximum deposit and also the deposits cannot efficiently utilized and there is negative correlation exists between interest rates and total credits.

For so, the researcher has recommended that bank should extend long term credit, the bank should not very much conscious about its security. The person, who has skill but not security, does not get loan from the bank. The bank decreased the interest in credit side, staffs should be trained. Finally the researcher has suggested that there should be frequently communication between staffs and key customers, particularly businessman.

**Ajay Agrawal** (2002), in the thesis entitled, **"A study on deposit and investment position of Yeti Finance Company Ltd."** has tried to examine the trend the deposit position and investment position of the Yeti Finance Company. That study was conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of 5 years (i.e. FY 1996/97 to 2000/2001). The researcher has found that the deposit policy is not stable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment. The researcher concluded that finance companies have been found profit oriented, ignoring the social responsibility which is not a fair a strategy to sustain in long run. Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

The minimum amount to open accounts and interest rate on credit should be reduced which ultimately intensify the profit and goodwill of the company in future. But in his research there is not clearly mentioned the effect of interest in deposit collection as well as in investment.

**Pramila Tandukar** (2003) in the thesis entitled **"Role o f NRB in deposit mobilization of commercial bank"** has tried to examine role of NRB in deposit collection by the commercial banks and to analyze the trends of deposits mobilization towards total investment and loan and advances. Projection is for five years i.e. (1998 to 2002). The data used in that study is both secondary and primary nature. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistical tools. The researcher took 17 commercial banks as population and two banks i.e. Nepal Bangladesh Bank Limited (NBBL) and Everest Bank Limited (EBL) as sample banks. The researcher has found that it can be said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. And deposit and loan and advances of NBBL are higher than EBL but in case of the investment EBL is able to mobilize more funds than NBBL in this sector.

In the study, only concentrate on two banks. The researcher has recommended to NBBL that diversification of loan and investment is highly suggested to the bank. As NBBL has given priority in investment in treasury bills which is risk free but it yields very low return to the bank and recommended to EBL to collect the deposit by initiating various new programs to attract the customer for this it can pay a higher interest rate than other banks recently providing.

**Dilip Roy** (2003) on his thesis entitled "**An investment analysis of Rastriya Banijya Bank"** has tried to analyze relationship of loan and advance, and total investments with total deposit

and to compare it with that of NBL and to compare loan and advance, total deposit and net profit of RBB and compare it with of NBL. That study was based on secondary data covering five years period from FY 1992/93 to 1996/97. The researcher used most of financial tools and coefficient of variation (C.V.) as statistical tools.
The researcher has found that RBB has good deposit collection, loan and advances and small investment in government securities. It also found that profitability position of RBB is the worth. RBB needs immediate step to increase its profitability. It also further found that RBB has more low quality of loan and advances.

The researcher has recommended that RBB should enhance its investment in securities. Small amount investment in securities of good company brings better income that large amount investment in securities of worse companies. So RBB needs to conduct proper pre-analysis before such investment. He also recommended that RBB should decrease loan loss by decreasing its poor quality of loan and advance. It needs to revise credit collection policy. He further suggested that RBB should decreases interest expenses and unnecessary fixed assets expenses and administration expenses and unnecessary fixed assets expenses and administration expenses should be controlled. Moreover RBB should enhance its off-balance sheet operation, remittance in order to increase its earnings.

The forgoing review of literature suggests that Deposit Mobilization plays vital role in economic development of country. Deposit mobilization can be best examined using the factors, such as interest rate, loan and advances, investment, branch expansion etc. Hence, in this study, the interest rates, deposits and loan and advances variables are used to identify the correlates of Deposit Mobilization of RBB, Kirtipur branch.

**Banti Gupta**, (2003), in his thesis entitled " Deposits and reinvestment problems of Nepalese Commercial Banks" said that strengthening and the institutionalization of the commercial banks is very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms is also needed such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB, diversity scope of activities for commercial banks, professional culture within commercial banks, etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

The commercial banks in Nepal must work hard to prove that they are really efficient and viable agencies for mobilization of saving and its channelization into productive sectors, are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

## 2.3 Research Gap

This thesis completes the whole scenario of the topic. On this thesis, 3 sample banks viz. Everest Bank Ltd., Nepal SBI Bank Ltd. and Standard Chartered Bank Nepal Ltd. are taken with 25 populations whereas on other thesis, it was not found. Also the period of the study is from 2002/03 to 2006/07 with the methodology of Ratio Analysis, Co-efficient of Co-relation and Regression Analysis with profound description & analysis. Hence, this thesis is more versatile than other previous works.

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# CHAPTER - III

# RESEARCH METHODOLOGY

## 3.1 Introduction

In the last two chapters, background of the commercial banks including JVBs has already been streamlined and review of literature with possible reviews of relevant ideas, theories and finding have also been discussed. As a result, researcher felt very comfortable to come to the choice of research methodology. “Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view”. (Kothari, C.R., 1990).

In other words, research methodology describes the proved application in the entire aspect of the study.

They study basically helps to conclude the deposit and investment aspects of NSBIBL, SCBNL, and EBL and recommend the useful and meaningful points, so that all concern can achieve something from study. To accomplish the goal, the study follows the research methodology described in this chapter.

## 3.2 Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variances. It is the arrangement of condition for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design has been used.

“A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.”

Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate deposits and investment of NSBIBL, SCBNL, and EBL.

### 3.3 Populations and Sample

There are altogether 25 commercial banks functioning all over Nepal and most of their stocks are traded actively in the stock market. In this study deposit and investment practice of commercial banks with respect to NSBI, SCBNL, and EBL are selected from population.

The population is as follows:

- Nepal Bank Limited
- Rastriya Banijya Bank
- Nabil Bank Limited
- Agricultural Development Bank Limited
- Standard Chartered Bank Limited
- Himalayan Bank Limited
- Siddhartha Bank Limited
- Nepal Bangladesh Bank Limited
- Nepal SBI Bank Limited
- Everest Bank Limited
- Lumbini Bank Limited
- Nepal Industrial & Commercial Bank Limited
- Kumari Bank Limited
- Nepal Investment Bank Limited
- Bank of Kathmandu Limited
- Laxmi Bank Limited
- Machhapuchhre Bank Limited
- Nepal Credit & Commercial Bank Limited
- Global Bank Limited
- Citizens International Bank Limited
- Prime Commercial Bank Limited
- Bank of Asia Nepal Limited
- Sunrise Bank Limited
- Development Credit Bank Limited
- Nepal Merchant Bank Limited

*Source: www.nrb.org.np*

### 3.4 Sources & Collection of Data

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan & advances, and profit are directly obtained from the balance sheet and profit and loss account of concerned banks. Supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, Security Board of Nepal, Nepal Stock Exchange Ltd., Ministry of Finance, Budget Speech of different fiscal years, Economic Survey and National Planning Commission, etc.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. In other judge, the reliability of data provided by the banks and other sources, they were compiled with the annual reports' of auditor. Formal and informal talks to the concerned data of the departments of the banks were also helpful to obtain the additional information of the related problem. Similarly, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

### 3.5 Period of the Study

The study period covers the data from FY2002/03 to FY2006/07.

### 3.6 Method of Analysis

To achieve the objective of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data is done according to pattern of data available. Because of limited time and resources, simple analytical statistical tool such as graph, percentage, Karl Person's coefficient of correlation and the method of least square are adopted in this study. Similarly, some strong financial tools such as ratio analysis have also been used for financial analysis.

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

### 3.6.1 Financial Tools

**Ratio Analysis**

Ratio is the relationship between two accounting figures expressed mathematically. Ratio analysis is the main tool of financial statement analysis. Ratio can be expressed as percentage, fraction or stated comparison between numbers.

Financial ratio is the mathematically relationship between two accounting figures. Ratio analysis is used to compare a firm's financial performance and status. From the help of ratio analysis, the quantitative judgment can be done regarding financial performance of a firm.

**A. Liquidity Ratio**

The ability of a firm to meet obligation in the short – term is known as liquidity. It is measured by the speed with which a bank's assets can be converted in to cash to meet deposit withdrawals and other current obligations. There are various ratios under liquidity ratio, which are calculated as follows:

**(i) Cash and bank balance to total deposit ratio**

This ratio is computed by dividing cash and bank balance by total deposit, i.e.

$$\frac{Cash\ \ and\ \ bank\ \ balance}{Total\ \ deposit}$$

Cash bank balance includes cash on hand, foreign cash on hand, cheque and other cash items, balance with domestic bank and balance held abroad. The total deposit consists of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits.

**(ii) Investment on government securities to current assets ratio**

Investment on government securities includes treasury bills, development bonds, saving bonds, etc. This ratio can be computed by dividing investment on government securities by current assets, i.e.

$$\frac{Investment\ \ on\ \ government\ \ Securities}{Total\ \ current\ \ assets}$$

**(iii)Loan and advances to current assets ratio**

This ratio can be computed by dividing loans and advances by current assets, i.e.

$$\frac{\textit{Loan and advances}}{\textit{Current assets}}$$

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

**B. Assets Management Ratio (Activity Ratio)**

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

**(i) Total investment to total deposit ratio**

This ratio can be calculated by dividing total investment by total deposit, i.e.

$$\frac{\textit{Total investment}}{\textit{Total deposit}}$$

**(ii) Loan and advances to total deposit ratio**

Total ratio is calculated by dividing loan and advances by total deposit, i.e.

$$\frac{\textit{Loan and advances}}{\textit{Total deposit}}$$

**(iii) Loan and advances to total working fund ratio**

This ratio is calculated by dividing loan and advances by total working fund, i.e.

$$\frac{\textit{Loan and advances}}{\textit{Total working fund}}$$

The denominator includes all assets of On-balance sheet items, In other word, this includes current assets, net fixed 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 of government securities to total working fund ratio.**

This ratio is calculated by dividing investment on government securities by total working fund, i.e.

$$\frac{Investment\ on\ government\ securities}{Total\ working\ fund}$$

**(v) Investment on shares and debentures to total working fund ratio.**

This ratio can be computed by dividing investment on shares and debentures by total working fund, i.e.

$$\frac{Investment\ on\ shares\ and\ debentures}{Total\ working\ fund}$$

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

**(vi) Total Off-balance Sheet (OBS) operation to loan and advances ratio.**

This ratio is calculated by total OBS operation by loan and advances, i.e.

$$\frac{Total\ OBS\ operation}{Loan\ and\ advances}$$

The numerator gives the indication that these transactions/operations are not included or part of balance sheet items assets or liabilities. It includes letter of credit, letter of guarantee, documents negotiate under reserve (DNUR), capital commitments, commitments on foreign currency purchase contracts, claim at bank but not accepted and other such transactions.

**C. Profitability Ratio**

Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indicator of the financial performance of any institution. It is notable that higher the profitability ratios better the financial performance and vice versa. Profitability position can be viewed in different ways.

**(i) Return on loan and advances ratio.**

The ratio is calculated by dividing net profit by loan and advances, i.e.

$$\frac{Net\ profit}{Loan\ and\ advances}$$

**D. Growth Ratio**

Growth ratios are directly related to the fund mobilization and investment management of a commercial bank. Growth ratios represent how well the commercial bank is maintaining its economic position.

To examine and analyze, following growth ratios are calculated in this study:-

(i) Growth ratio of total deposits

(ii) Growth ratio of loan advances

(iii) Growth ratio of total investment.

### 3.6.2. Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as correlation coefficient analysis, standard deviation, and coefficient of variance, Regression Analysis and hypothesis testing have been used. The basic analysis is written in point below:

(a) Co-efficient of Correlation different variables.

(b) Regression Analysis

**A. Correlation Co-efficient Analysis**

This analysis identifies and interprets the relationship between two or more variables. In the case of highly correlated variables, the effect on one variable may have other correlation variable. Under this study, Karl Person's Co-efficient of Correlation has been used. To find out the relationship, the following variables are applied:-

i) Co-efficient of correlation between deposit and loan and advances.

ii) Co-efficient of correlation between deposit and total investment.

This tool analyzes the relationship between these variables and helps the banks to make appropriate policy regarding deposit collection, fund utilization (loan & advances and investment) and maximization of profit.

**B. Regression analysis**

Regression is stepping or returning back to the original position. It is used as a tool of determining the strength of relationship between two variables. At this point, the trend value of total deposits, total investment and net profit is found to evaluate the major indicators of the banks.

# CHAPTER – IV

# DATA PRESENTATION AND ANALYSIS

## 4.1 Introduction

Under this part, the collected data through secondary sources have been represented in the suitable formats (i.e. table and charts), analyzed using various statistical and financial tools and certain inferences and interpretation have also been made finally.

## 4.2 Liquidity Ratios

The liquidity of the commercial banks (CBs) is measured by the extent to which they maintain liquid cash balance both in vault and at Nepal Rastra Bank (NRB) in relation to their balance of deposit. So the liquidity ratios have been calculated to identify the liquidity positions of CBs on the basis of sample banks:

### 4.2.1 Cash & Bank Balance to Total Deposit Ratio

This is the most important ratio for measuring the extent of the liquidity of the commercial banks. The sound ratio indicates that the liquid position of the bank is strong and enough to meet the immediate demand of cash by its customers. This ratio is obtained by dividing the total cash with the bank itself and the cash reserve ratio (CRR) maintained in the NRB as:

**Table 4.1**

**Cash & Bank Balance to Total Deposit**

| **Banks** | **Fiscal Year** | | | | | **Mean** | **S.D** | **C.V (%)** |
|---|---|---|---|---|---|---|---|---|
| | **2002/03** | **2003/04** | **2004/05** | **2005/06** | **2006/07** | | | |
| **EBL** | 17.02% | 10.16% | 16.04% | 11.25% | 13.15% | 13.52% | 2.97% | 21.93% |
| **SCBNL** | 16.90% | 20.04% | 17.43% | 5.53% | 8.20% | 13.62% | 6.35% | 46.63% |
| **NSBI** | 29.07% | 20.44% | 12.01% | 10.16% | 9.81% | 16.30% | 8.34% | 51.19% |

*Sources: Appendix 1(i)*

The Table 4.1 presents the cash and bank balance to total deposit ratio of selected banks. The cash and bank balance to total deposit ratio of EBL shows a fluctuating trend during the study period i.e. FY 2002/03 to 2006/07. Similarly, the cash and bank balance to total deposit ratio of SCBNL also shows a fluctuating trend over a study period. This ratio of SCBNL has increased in 2002/03 after that it has started to decline. In case of NSBI, the ratio shows a decreasing trend through out the study period i.e., FY 2002/03 to FY 2006/07.

The average value of cash and bank balance to total deposit ratio of EBL is the lowest in comparison to SCBNL and NSBI i.e. 13.52<13.62<16.3. Regarding the cash and bank balance to total deposit ratio, poor liquidity position of EBL has been found. The C.V of NSBI is 51.19%, which is the highest than that of SCBNL 46.63% and EBL 21.93% which indicates that the ratio of NSBI is less consistent than that of SCBNL and EBL.

### 4.2.2 Cash & Bank Balance To Current Deposit Ratio

Another good indicator of liquidity of commercial banks is cash & bank balance to current deposit ratio. Current deposit is that type of immediate non-interest bearing liability that needs to be assigned to its holders at the time of demands. So provision of enough cash should be made in order to provide the current account holders instantly. It is measured by the following ratio:

**Table 4.2**

**Cash & Bank Balance to Current Deposit**

| Banks | Fiscal Year | | | | | Mean | S.D | C.V (%) |
|---|---|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | | | |
| **EBL** | 202.63% | 113.82% | 158.04% | 135.54% | 142.86% | 150.58% | 33.17% | 22.03% |
| **SCBNL** | 54.96% | 72.92% | 77.38% | 27.26% | 42.15% | 54.93% | 20.96% | 38.15% |
| **NSBI** | 149.07% | 102.57% | 51.68% | 79.40% | 58.16% | 88.18% | 39.45% | 44.74% |

*Sources: Appendix 1(ii)*

The table 4.2 exhibits the cash and bank balance to current deposit ratio of sampled banks. The above table depicts that the cash and bank balance to current deposit ratio of EBL and SCBNL shows a fluctuating trend during FY 2002/03 to 2006/07. In case of NSBI, the ratio shows a decreasing trend over a study period.

While examining the mean ratio, EBL maintains 150.58% which is higher than SCBNL and NSBI i.e. 54.93% and 88.18%. It indicates that the liquidity position of EBL is the highest in comparison to other two banks. In this regard, the co-efficient of variation between the above ratios of EBL is 22.03% which is comparatively less than that of SCBNL & NSBI i.e., 44.74%>38.15%22.03% it shows more consistent of EBL than that of SCBNL & NSBI. It shows the current ratios are less heterogeneous than that of other two banks.

### 4.3 Turnover Ratios

These are also known as assets management ratio. The turnover ratios indicate the efficiency in utilizing the funds or assets of the company. Deposit is the prime source of funds in all banks. So the ratio of money distributed in the form of loans and advances (credit and advances) to the total funds collected in the banks are the most important ratio, which indicates the efficiency of the management in utilizing those deposits.

#### 4.3.1 Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposits by investing its fund is different securities issued by government and other financial or non financial institutions. Now, efforts has been made to measure the extent to which the banks are successful is mobilizing the total deposits on investment.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement Central banks norms etc are to be considered in general. A high ratio is the indicator of high success to mobilize the baking fund as investment and vice versa.

**Table 4.3**

**Total Investment to Total Deposit**

| Banks | Fiscal Year | | | | | Mean | S.D | C.V |
|---|---|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | | | (%) |
| EBL | 24.70% | 31.44% | 21.08% | 30.43% | 27.41% | 27.01% | 4.24% | 15.70% |
| SCBNL | 54.47% | 53.68% | 50.18% | 55.71% | 54.99% | 53.81% | 2.16% | 4.01% |
| NSBI | 10.75% | 18.51% | 26.50% | 34.17% | 23.24% | 22.63% | 8.76% | 38.68% |

*Sources: Appendix 1(iii)*

The table 4.3 exhibits the Total Investment to Total Deposit ratio of sampled banks. The above table depicts that the Total Investment to Total Deposit ratio of EBL is following fluctuated trend from FY 2002/03 to 2006/07. In the case of SCBNL it is in decreasing trend from 2002/03 to 2004/05 and increases in FY 2005/06 & 2006/07. And incase of NSBI the ratio has increasing trend except in last year, which is 10.75, 18.51, 26.50, 34.17 and 23.24 percentage in the year 2002/03, 2003/04, 2004/05, 2005/06 & 2006/07.

In an average SCBNL has lowest mean value i.e. 2.16<4.24< 8.76 percentage than other two banks. NSBI has maintained the highest mean value of 8.76%. The CV ratio of SCBNL is 4.01% which is lower than 38.68% of NSBI and EBL 15.70% which shows that SCBNL is more stable than that of other two banks.

### 4.3.2 Loan & Advances to Total Deposit Ratio

Deposits are the main sources of funds for commercial banks. More than 50% of the total assets have been found to be financed through deposits. Total deposit includes saving, fixed, call, current and fixed deposits. On the contrary, credit & advances also called as loan & advances are the sales figure of banks. So the ratio shown below provides the beautiful insight regarding how efficiently the funds are utilized in commercial banks. Higher ratio is desirable.

**Table 4.4**

**Loan & Advance to Total Deposit**

| Banks | Fiscal Year | | | | | Mean | S.D | C.V |
|---|---|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | | | (%) |
| EBL | 73.32% | 72.97% | 75.45% | 71.01% | 75.13% | 73.58% | 1.80% | 2.44% |
| SCBNL | 30.37% | 30.29% | 42.12% | 38.75% | 42.61% | 36.83% | 6.12% | 16.60% |
| NSBI | 77.15% | 68.51% | 71.46% | 69.32% | 82.66% | 73.82% | 5.98% | 8.11% |

*Sources: Appendix 1(iv)*

The Table 4.4 presents Loan & Advance to Total Deposit ratio of selected three banks. In the above table, all the banks have fluctuating trend regarding the ratios. During the study period, EBL has the highest ratio of 75.45% in FY 2004/05 and lowest ratio 71.01% in FY 2005/06.

Similarly, SCBNL has the highest and lowest ratios 42.61% and 30.29% in FY 2006/07 and 2003/04. Likewise, NSBI has highest & lowest ratios 82.66% and 68.51% in FY 2006/07 and 2002/03 respectively.

In over all mean ratio of loan & advances to total deposit of NSBI is higher than that of SCBNL & NSBI. EBL has C.V of 2.44%, which is comparatively lower than 16.60% of SCBNL and 8.11% of NSBI. It shows that EBL is more consistent than other banks.

### 4.3.3 Credit & Advances to Fixed Deposit Ratio

As fixed deposit is an interest bearing deposit, the extent of the utilization of it determines the efficiency of the bank. It should not be remained idle. Otherwise, the performance of the bank declines. Therefore, the study of the ratio of fixed deposit turnover ratio is quite rationale.

**Table 4.5**

**Loan & Advance to Fixed Deposit**

| **Banks** | **Fiscal Year** | | | | | **Mean** | **S.D** | **C.V (%)** |
|---|---|---|---|---|---|---|---|---|
| | **2002/03** | **2003/04** | **2004/05** | **2005/06** | **2006/07** | | | |
| **EBL** | 177.97% | 157.73% | 158.50% | 231.03% | 242.85% | 193.62% | 40.59% | 20.96% |
| **SCBNL** | 53.57% | 50.19% | 62.49% | 61.21% | 68.90% | 59.27% | 7.45% | 12.56% |
| **NSBI** | 337.28% | 273.65% | 251.77% | 124.70% | 171.46% | 231.77% | 84.24% | 36.35% |

*Sources: Appendix 1(v)*

The table 4.5 exhibits the Loan and Advance to Fixed Deposit of the sampled banks. The above table reveals the fluctuating trend of EBL and SCBNL and regarding the ratios of NSBI, the table shows the decreasing trend. During the study period, EBL shows highest ratio of 242.85% in FY 2006/07 and lowest ratio of 157.73% in FY 2003/04. The table reveals that the SCBNL has the highest and the lowest ratios of 68.90% and 50.19% in FY 2006/07 and 2003/04 respectively and NSBI with the highest & lowest ratios of 337.28% and 124.70% in FY 2002/03 and 2005/06 respectively.

In over all mean ratio of loan & advances to fixed deposit of NSBI is higher than that of SCBNL & NSBI. SCBNL has 12.56% C.V, which is comparatively lower than 20.96% of EBL and 36.35% of NSBI. It shows that SCBNL has more consistent than other banks.

### 4.3.4 Loan & Advances to Total Assets Ratio

Loan & advances is an important part of total assets (total working fund). Commercial bank must be very careful in mobilizing it total assets. As loan and advances in appropriate level to generate profit this ratio reflects the extent to which the commercial banks are success is mobilizing their assets, loan & advances for the purpose of income generation. A high ratio indicates better is mobilization of funds as loan and advances and vice versa.

**Table 4.6**

**Loan & Advance to Total Assets**

| **Banks** | **Fiscal Year** | | | | | **Mean** | **S.D** | **C.V (%)** |
|---|---|---|---|---|---|---|---|---|
| | **2002/03** | **2003/04** | **2004/05** | **2005/06** | **2006/07** | | | |
| **EBL** | 60.96% | 61.24% | 64.61% | 61.41% | 63.75% | 62.39% | 1.67% | 2.67% |
| **SCBNL** | 27.24% | 27.11% | 37.19% | 34.67% | 36.73% | 32.59% | 5.03% | 15.44% |
| **NSBI** | 61.23% | 59.06% | 60.94% | 58.51% | 68.05% | 61.56% | 3.81% | 6.19% |

*Sources: Appendix 1(vi)*

The table 4.6 represents the Loan and Advance to Total Assets ratio. The above table exhibits that the ratio of EBL, SCBNL & NSBI is in fluctuating trend from 2002/03 to 2006/07. On the basis of mean ratios, EBL maintains the higher ratio than that of NSBI & SCBNL i.e. 62.39%>61.56%>32.59%. So, EBL is in good condition to mobilize its total working fund as loan and advances. Co-efficient of variation of EBL is less than NSBI and SCBNL i.e. 2.67%<6.19%<15.44%. It indicates that EBL is more uniform in comparison with NSBI & SCBNL.

### 4.3.5 Investment on Shares & Debentures to Total Working Funds Ratio

All the resources of a bank are not used as loan and advances. A bank mobilizes its fund in various ways. One of them is investing on shares & debentures. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund or different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as investment on government securities is a current asset which is invested by external parties. These types of securities can be sold in the market.

**Table 4.7**

**Investment on Share & Debenture to Total Working Fund**

| Banks | Fiscal Year | | | | | Mean | S.D | C.V (%) |
|---|---|---|---|---|---|---|---|---|
| | **2002/03** | **2003/04** | **2004/05** | **2005/06** | **2006/07** | | | |
| **EBL** | 0.21% | 0.18% | 0.16% | 0.12% | 0.09% | 0.15% | 0.05% | 31.35% |
| **SCBNL** | 0.05% | 0.05% | 0.06% | 0.06% | 0.16% | 0.08% | 0.05% | 62.14% |
| **NSBI** | 0.25% | 0.24% | 0.21% | 0.15% | 0.23% | 0.22% | 0.04% | 18.40% |

*Sources: Appendix 1(vii)*

The Table 4.7 exhibits Investment on Share & Debenture to Total Working Fund. From the above table it is clearly seen that investment on government securities to working fund ratio of EBL is in decreasing trend, SCBNL is in fluctuating trend & NSBI is in increasing trend except in last year.

On the basis of mean, EBL maintains slightly higher ratio than of SCBNL and lower ratio than NSBI i.e. 0.15% > 0.08% < 0.22%. The co-efficient of variation of SCBNL is higher than that of EBL & NSBI i.e. 62.14%>31.35%>18.40%. This C.V shows the less consistency of SCBNL than other two banks.

From the above analysis, it can be concluded that SCBNL's fund mobilization in terms of government securities with respect of total working fund is not more satisfactory with less homogeneous than that of other two banks.

### 4.3.6 Investment on Government Securities to Total Working Funds Ratio

Investing in securities of government is one of the major schemes of banks. Those securities include mostly treasury bills and other marketable securities of government issued by NRB on behalf of the government. A government security is a safe medium of investment though it is not liquid as cash and bank balance. These assets are almost risk-free and are sellable at higher value in the future also.

**Table 4.8**

**Investment on Government Securities to Total Working Fund**

| Banks | Fiscal Year | | | | | Mean | S.D | C.V |
|---|---|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | | | (%) |
| **EBL** | 19.86% | 25.67% | 17.81% | 22.24% | 21.95% | 21.51% | 2.93% | 13.64% |
| **SCBNL** | 31.47% | 33.62% | 32.90% | 33.50% | 24.86% | 31.27% | 3.68% | 11.78% |
| **NSBI** | 7.17% | 15.72% | 22.17% | 27.55% | 16.87% | 17.90% | 7.62% | 42.58% |

*Sources: Appendix 1(viii)*

The table 4.8 exhibits Investment on Government Securities to Total Working fund. The above table shows that the ratio of EBL & SCBNL is in fluctuating trend whereas incase of NSBI it is in increasing trend.

On the basis of mean ratios, SCBNL has higher investment than other two banks i.e. 31.27%>21.51%>17.09%. Moreover, CV of SCBNL is less than other two banks i.e. 11.78 %< 13.64 %< 42.58%, which states that the position of SCBNL is better than other two sampled banks in this regard.

It can be concluded that SCBNL has invested more portion of its total working fund on shares & debentures than the other two banks being more consistent and homogeneous.

### 4.4 Profitability Ratios

We also need the indicators of profitability position in order to identify the overall efficiency of management and utilization of the funds collected ad used in the banks. The major ratios that we consider under this sector are:

#### 4.4.1 Return on Assets Ratio

The total net assets of the banks are the sector where the total funds collected through various sources are invested to earn sufficient profits.

**Table 4.9**

**Return on Total Working Fund**

| Banks | Fiscal Year | | | | | Mean | S.D | C.V (%) |
|---|---|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | | | |
| EBL | 1.17% | 1.49% | 1.45% | 1.49% | 1.38% | 1.40% | 0.13% | 9.61% |
| SCBNL | 2.42% | 2.27% | 2.46% | 2.56% | 2.42% | 2.43% | 0.10% | 4.30% |
| NSBI | 0.58% | 0.64% | 0.72% | 0.90% | 1.83% | 0.93% | 0.52% | 55.16% |

*Sources: Appendix 1(ix)*

The table 4.9 exhibits the Return on Total Working Fund. The above table shows that EBL and SCBNL follows fluctuating trend and incase of NSBI it's in increasing trend from 2002/03 to 2006/07.

In the mean ratios, it is observed that the SCBNL maintains the highest mean value i.e. 2.43>1.40>0.93. So, SCBNL is highly efficient to earn net profit and return as well. On the other hand C.V of SCBNL is less than EBL and NSBI i.e. 4.30%<9.61%<55.16% indicating more consistency and uniformity compared to other two banks.

**4.4.2 Interest Income to Total Credit & Advances Ratio**

One of the major sources of the operating funds and the profit is the income received from the total credit and lending. The more the lending, the greater will be the income from interest unless there is occurrence of any sort of bad debts. This ratio acts as the major indicator of the utilization of the funds in CBs. Thus, higher ratio is desirable for commercial banks.

**Table 4.10**

**Total Interest Earned to Loan & Advance**

| Banks | Fiscal Year | | | | | Mean | S.D | C.V (%) |
|---|---|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | | | |
| EBL | 10.60% | 11.17% | 9.44% | 9.22% | 8.38% | 9.76% | 1.12% | 11.44% |
| SCBNL | 17.58% | 16.26% | 13.00% | 13.31% | 13.44% | 14.72% | 2.07% | 14.06% |
| NSBI | 9.06% | 10.51% | 9.60% | 9.29% | 8.79% | 9.45% | 0.66% | 7.02% |

*Sources: Appendix 1(x)*

The table 4.10 reveals that SCBNL has the fluctuating trend during the study period. In the case of NSBI it is in fluctuating trend from FY 2002/03 to FY 2006/07 and EBL with increasing trend in FY 2003/04 and decreasing till 2006/07.

The mean of SCBNL is greater than that of other two banks i.e. 14.72%>9.76%>9.45%. So, we can say that SCBNL is in strong position to generate interest income from the total working fund than other two banks. On the other hand, C.V of NSBI is lower than that of EBL & SCBNL i.e. 7.02% <11.44%<14.06%. It means NSBI is more consistent than the other two banks.

Thus, it can be concluded that the ratio of total interest earned to total working fund ratio of NSBI is satisfactory in comparison to other two banks. That means the total interest earned to total working fund ratio of NSBI is stable in comparison to SCBNL & EBL.

### 4.4.3 Return on Loans & Advances Ratio

This ratio is useful in evaluating the overall efficiency of the management of the banks in generating meaningful returns in a year. This ratio is calculated by dividing the net profit after taxes b total loan & advances in an accounting period as:

**Table 4.11**

**Net Profit to Loan & Advance**

| Banks | Fiscal Year | | | | | Mean | S.D | C.V (%) |
|---|---|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | | | |
| **EBL** | 1.92% | 2.44% | 2.24% | 2.42% | 2.17% | 2.24% | 0.21% | 9.47% |
| **SCBNL** | 8.90% | 8.39% | 6.62% | 7.37% | 6.59% | 7.57% | 1.04% | 13.76% |
| **NSBI** | 0.95% | 1.09% | 1.18% | 1.53% | 2.69% | 1.49% | 0.71% | 47.39% |

*Sources: Appendix 1(xi)*

The table 4011 exhibits the Net Profit to Loan & Advance ratio which shows that the ratio of EBL maintains the fluctuating trend, SCBNL with decreasing trend at first i.e. from FY 2002/03 to 2004/05 and then the fluctuating trend from 2005/06 to 2006/07 & NSBI with the increasing trend from 2002/03 to 2006/07.

The mean of the SCBNL is higher than EBL & NSBI i.e. 7.57%>2.24%>1.49% in respect to return on loan & advances ratio. On the other hand C.V of EBL is less than that of other two banks. So EBL has maintained high return than that of other two banks.

Further, from the above analysis, it can be concluded that EBL is significantly able to earn high return on its loan and advances in comparison to other two banks in point of view of average mean & low C.V ratio.

### 4.4.4 Non-Performing Loan to Loan & Advance

NRB has directed the commercial banks to classify their total loan portfolio into two category performing loan and non performing loan. Non performing loan to total loan ratio determines the proportion of non-performing loan in the total loan portfolio. Higher ratio implies the bad quality of assets of banks in the form of loan and lower return from the loan portfolio and lower ratio implies good quality of loan. Hence lower NPL to total credit ratio is preferred. The ratio is calculated as follows

**Table 4.12**

**Non-Performing Loan to Loan & Advance**

| **Banks** | **Fiscal Year** | | | | | **Mean** | **S.D** | **C.V (%)** |
|---|---|---|---|---|---|---|---|---|
| | **2002/03** | **2003/04** | **2004/05** | **2005/06** | **2006/07** | | | |
| **EBL** | 2.27% | 1.78% | 1.69% | 1.32% | 0.83% | 1.58% | 0.54% | 34.10% |
| **SCBNL** | 4.43% | 3.87% | 2.78% | 2.19% | 1.88% | 3.03% | 1.09% | 35.99% |
| **NSBI** | 13.06% | 7.74% | 8.57% | 6.82% | 0.48% | 7.33% | 4.52% | 61.63% |

*Sources: Appendix 1(xii)*

The table 4.12 exhibits the Non-Performing Loan to Loan & Advance ratio. The above table reveals that the trend of the ratio for EBL, SCBNL and NSBI is in decreasing pattern from FY 2002/03 to FY 2006/07. With reference to mean ratios, it is observed that the average mean value of SCBNL is 3.03% which is less than 7.33% of NSBI and higher than 1.58% of EBL. The co-efficient of variation of EBL is less than other two banks i.e., 34.10% < 35.99 %< 61.63% which indicates that less loans & advances have been converted into bad loans in compared to other two banks.

In the point of view of average mean and lower C.V it can be concluded that comparatively EBL has mobilized its equity capital more efficiently than other two banks. So, EBL has sound investment policy on equity capital moreover its lower C.V shows it's more homogenous during the study period.

### 4.5 Growth Ratio

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 the economic and financial position. Under this topic, four growth ratios are studied which are as follows:

(i) Growth Ratio of Total Deposit.

(ii) Growth of Total Loan and Advances.

(iii) Growth of Total Investment.

(iv) Growth Ratio of Total Net Profit.

#### (i) Growth Ratio of Total Deposit

**Table 4.13**

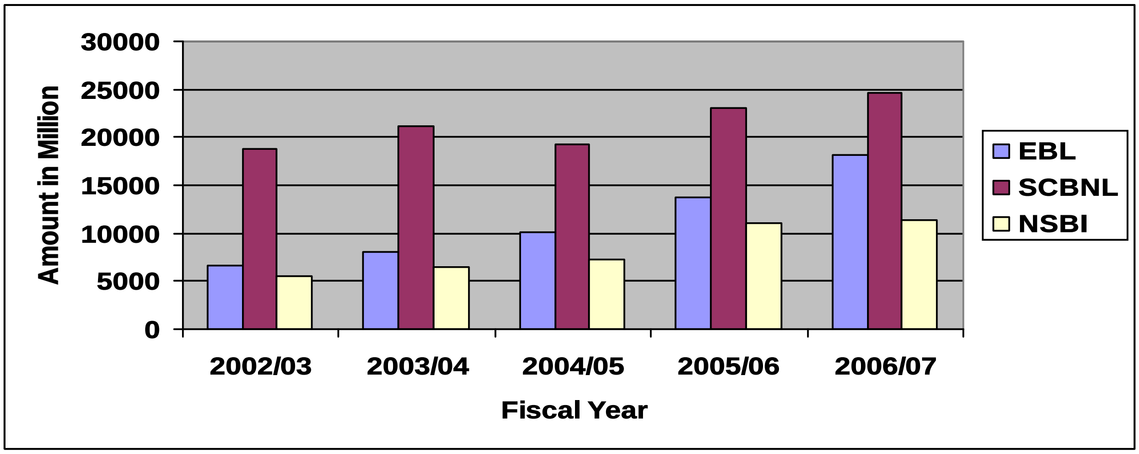
**Growth Ratio of Total Deposit (%)**

| **Banks** | **Fiscal Year** | | | | | **Growth Ratio (%)** |
|---|---|---|---|---|---|---|
| | **2002/03** | **2003/04** | **2004/05** | **2005/06** | **2006/07** | |
| **EBL** | 6694.96 | 8063.9 | 10097.69 | 13802.4 | 18186.25 | 28.38 |
| **SCBNL** | 18755.6 | 21161.44 | 19335.1 | 23061 | 24647.02 | 7.07 |
| **NSBI** | 5572.47 | 6522.82 | 7198.33 | 11002 | 11445.29 | 9.72 |

*Sources: Appendix 1(xiii)*

**Figure 4.1**

**Trend of Total Deposit**




The table 4.13 shows the comparative total deposits of the sample banks from FY2002/03 to FY2006/07 from which the growth ratios have been calculated. It is found that the growth ratio of EBL deposit is higher than that of NSBI and SCBNL i.e. 28.38%>9.72%>7.76%. It means that the performance of EBL to collect greater deposit compared to NSBI & SCBNL is better year-by-year.

**(ii) Growth of Total Loan and Advances**

**Table 4.14**

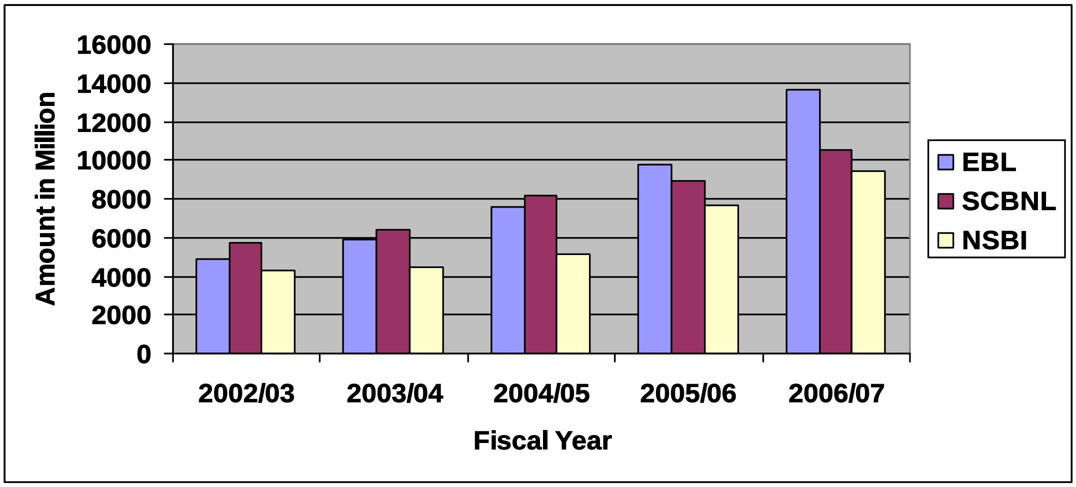
**Growth Ratio of Loan and Advances (%)**

| Banks | Fiscal Year | | | | | Growth Ratio (%) |
|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | |
| EBL | 4908.46 | 5884.12 | 7618.67 | 9801.31 | 13664.08 | 29.17 |
| SCBNL | 5695.82 | 6410.24 | 8143.21 | 8935.42 | 10502.64 | 16.53 |
| NSBI | 4299.25 | 4468.72 | 5143.66 | 7626.74 | 9460.45 | 29.79 |

*Sources: Appendix 1(xiii)*

**Figure 4.2**

**Trend of Loan and Advances**




The table 4.14 shows the comparative total loans & advances of the banks from FY2002/03 to FY2006/07 from which the growth ratios have been calculated. It is found that that the growth ratio of NSBI has maintained ratio of 29.79% whereas EBL & SCBNL maintain 29.17% and 16.53% respectively. It means the performance of EBL to grant loan and advances in comparison to other banks is better year-by-year.

**(iii) Growth of Total Investment**

**Table 4.15**

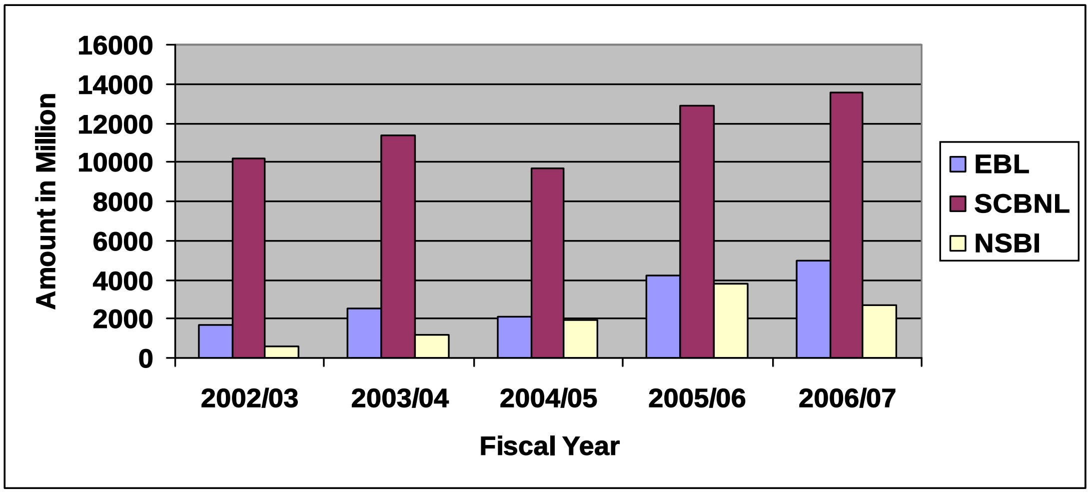
**Growth Ratio of Total Investment (%)**

| Banks | Fiscal Year | | | | | Growth Ratio (%) |
|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | |
| EBL | 1653.98 | 2535.66 | 2128.93 | 4200.52 | 4984.31 | 31.76 |
| SCBNL | 10216.2 | 11360.33 | 9702.55 | 12847.5 | 13553.23 | 7.33 |
| NSBI | 599.06 | 1207.28 | 1907.52 | 3758.98 | 2659.45 | 45.16 |

*Sources:Appendix1(xiii)*

**Figure 4.3**

**Trend of Total Investment**




The table 4.15 shows the comparative total investment of the banks from FY2002/03 to FY2006/07 from which the growth ratios have been calculated. It is found that growth ratio of total investment of NSBI is higher than EBL & SCBNL i.e. 45.16%>31.76%>7.33%. So we can say that NSBI has better growth level for investment sector even FY 2005/06 to 2006/07.

**(iv) Growth Ratio of Total Net Profit**

**Table 4.16**

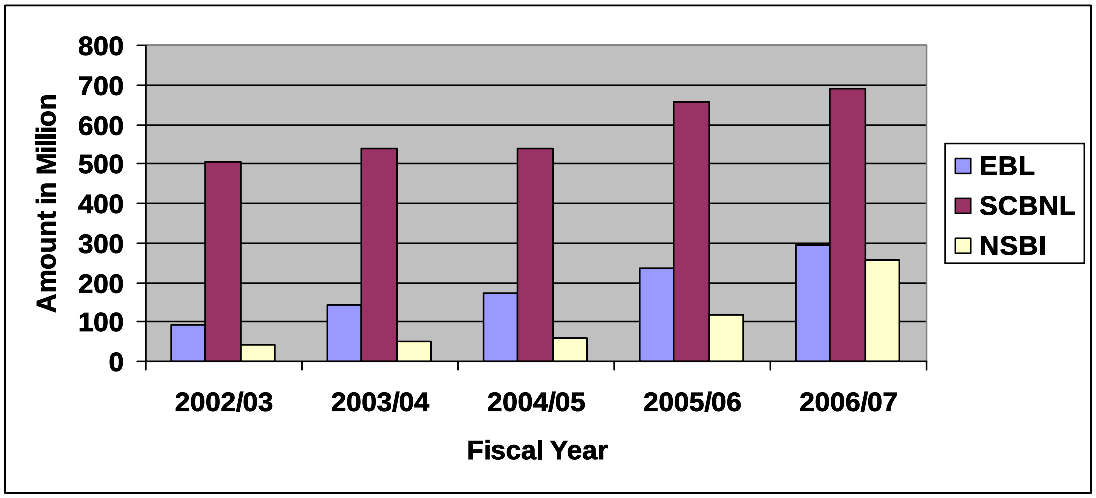
**Growth Ratio of Total Net Profit (%)**

| Banks | Fiscal Year | | | | | Growth Ratio (%) |
|---|---|---|---|---|---|---|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | |
| **EBL** | 94.18 | 143.57 | 170.81 | 237.29 | 296.41 | 33.19 |
| **SCBNL** | 506.93 | 537.8 | 539.2 | 658.76 | 691.67 | 8.09 |
| **NSBI** | 40.84 | 48.75 | 60.85 | 117 | 254.91 | 58.06 |

*Sources: Appendix 1(xiii)*

**Figure 4.4**

**Trend of Total Net Profit**




The table 4.16 shows comparative total net profits of the banks from FY2002/03 to FY2006/07 from which the growth ratios have been calculated. It is observed that the growth ratio of SCBNL net profit i.e. 8.09% is lower than NSBI and EBL i.e. 58.06% & 33.19% respectively. In the view of net profit EBL maintains average position in comparison to other two banks.

### 4.6 Statistical Tools:

Under this heading some statistical tools such as co-efficient of correlation analysis between different various, trend analysis of deposits, loan and advances, investment and net profit as well as hypothesis test are used to achieve the objectives of the study.

#### 4.6.1 Coefficient of Correlation Analysis between Total Deposit and Loan & Advances

It is already mentioned that investment is dependent upon saving i.e. deposit. Longer the duration of deposit, higher the banker's ability to acquire long term asset. In the other words banker can't invest more. On long term assets if the duration of deposit is short. In this sense it can be said that investment is the function of deposit.

Theoretically it is assumed that long-term asset yield higher return. It means longer the duration of deposit, higher would be the profitability of the bank. But investment may not be the function of deposit only. Sometimes investment is made from the funds raised from other sources. In such situation investment is not dependent upon deposit only. Co-efficient of correlation between deposit and loan ad advances measures the degree of relationship between these two variables. In this analysis deposits is independent variable (y) and loan and advances is dependent variable (x).

**Table 4.17**

**Correlation between Total Deposits and Loan and Advances**

| **Evaluation Criterions** | | | | |
|---|---|---|---|---|
| **Banks** | **r** | **$r^2$** | **P.E.** | **6 P.E.** |
| **EBL** | 0.9976 | 0.9953 | 0.0014 | 0.0085 |
| **SCBNL** | 0.8257 | 0.6818 | 0.0960 | 0.5758 |
| **NSBI** | 0.9679 | 0.9368 | 0.0191 | 0.1143 |

*Sources: Appendix 2(i)*

From the table 4.17, three sample banks' co-efficient of correlation between total deposit and loan and advances shows high degree of positive relationship. In case of EBL, it is found that co-efficient of correlation between total deposit and loan and advances is 0.9976, which is high degree of positive correlation. When we consider, the value of coefficient of determination ($r^2$), it is 99.53% of the variation is the dependent variable (loan and advances) has been explained by the independent variable (total deposit).

Similarly, considering the valued of (r) i.e. 0.9976 and comparing it with 6P.E. i.e. 0.0085 we can find that (r) is greater than the value of 6P.E. This reveals that the value of r is significant. In other words there is significant relationship between total deposit and loan and advances in case of EBL.

Likewise, in the case of SCBNL & NSBI, it has high degree of positive correlation between deposit and loan & advances. However by application of coefficient of determination ($r^2$) it indicates that SCBNL and NSBI has 68.18% and 93.68% respectively of the variation in the dependent variable i.e. loan and advances has been explained by the independent variable i.e. deposits. Moreover considering the probable error, in case of SCBNL and NSBI, (r) is greater then 6 P.E is can be said that the value of (r) is significant i.e., there is significant relationship between total deposit and loan & advances.

Lastly, from the above analysis, we can conclude that, in EBL, SCBNL and NSBI, there is positive relationship between total deposits and loan & advances. The relationship is significant and the value of ($r^2$) shows high percent in the dependent variable which has been explained by the independent variable. This indicates that three banks are successful to mobilize their deposits in-proper way as loan & advances. Moreover, we can further conclude that EBL has higher correlation between deposit and loan & advances as well as higher value of ($r^2$) than those of SCBNL & NSBI. This indicates that it is in strong condition to grand loan & advances for mobilizing the collected deposits in comparison to other two banks.

### 4.6.2 Coefficient of Correlation Analysis between Total Deposit and Total Investment

Co-efficient of correlation (r) between deposit and investment measures the degree of relationships between these two variables. Here, deposit is independent variable (x) and total investment is dependent variable (x). The purpose of computing co-efficient of correlation between deposit and total investment is to find out whether deposit is significantly used as investment or not.

The table 4.22 shows the value of r, $r^2$, P.E and 6P.E between total deposit and total investment of EBL, SCBNL & NSBI for the study period of 2002/03 to 2006/07.

**Table 4.18**

**Correlation between Total Deposit and Total Investment**

| **Evaluation Criterions** | | | | |
|---|---|---|---|---|
| **Banks** | **r** | **$r^2$** | **P.E.** | **6 P.E.** |
| **EBL** | 0.9565 | 0.9149 | 0.0257 | 0.1540 |
| **SCBNL** | 0.9786 | 0.9576 | 0.0128 | 0.0768 |
| **NSBI** | 0.9119 | 0.8316 | 0.0508 | 0.3048 |

*Sources: Appendix 2(ii)*

From the table 4.18, it has been found that co-efficient of correlation between deposits (independent) and total investment (dependent) value of 'r' is 0.9565 in case of EBL. It shows highest degree of positive relationship between two variables. However, by application of coefficient of determination the value of ($r^2$) is 0.9149 which indicates 91.49% of the variation of the dependent variable (total investment) has been explained by the independent variable (deposits). Moreover, by considering the probable error, since the value of r i.e. 0.9149 is greater than 6P.E. i.e. 0.1540. So, we can say that there is significant relationship between total deposits and total investments.

On the other hand in case of SCBNL and NSBI, both have high degree of correlation between deposit and total investment. However, by the application of coefficient of determination i.e. $r^2$ it indicates SCBNL to be 95.76% and NSBI to be 83.16% respectively of the variation in the dependent variable i.e. total investment has been explained by the independent variables i.e. deposit more over considering the probable error since the value of r i.e. 0.9786 of SCBNL and 0.9119 of NSBI is more than 6 P.E. So we can say that there is significant relationship between total deposit and total investment of SCBNL & NSBI.

Lastly, from the above analysis, we can conclude that EBL, SCBNL & NSBI have high degree of positive relationship between deposit & investment. The relationship is significant and the value of ($r^2$) shows high percent in the dependent variable which has been explained by the independent variable. This indicates that three banks are successful to invest their deposit in proper way. More over, we can further conclude that EBL has slightly lower correlation between investment & deposit as well as lower value of $r^2$ in comparison to SCBNL ad higher value in comparison to NSBI. It indicates that EBL is in average position to follow the policy of maximizing the investment of their deposits in comparison to SCBNL and NSBI.

### 4.6.3 Coefficient of Correlation Analysis between Total Assets and Net Profit

Coefficient of correlation 'r' between total assets and net profit measures the degree of relationship between these two variables. Here, total assets are independent variable (x) and net profit is dependent variable (y). The purpose of computing co-efficient of correlation between total assets and net profit is to find out whether the net profit is significantly correlated with respective total assets or not.

**Table 4.19**

**Co-efficient of Correlation between Total Assets and Net Profit**

| **Evaluation Criterions** | | | | |
|---|---|---|---|---|
| **Banks** | **r** | **$r^2$** | **P.E.** | **6 P.E.** |
| **EBL** | 0.9876 | 0.9753 | 0.0074 | 0.0446 |
| **SCBNL** | 0.9548 | 0.9116 | 0.0267 | 0.1601 |
| **NSBI** | 0.8839 | 0.7812 | 0.0660 | 0.3959 |

*Sources: Appendix 2(iii)*

From the listed table 4.19 it has been found that the coefficient of correlation between total assets (independent) and net profit (dependent) of EBL is 0.9876 high degree of positive correlation between these two variables. On the other hand, considering the value of co-efficient of determination $r^2$ i.e. 0.9753 indicates that 97.53% of the variation in the dependent variables (net profit) has been explained by the independent variables (total assets) moreover by considering the probable error. We can further say that there is significant relationship between total outside assets and net profit because the value of r i.e. 0.9876 is greater that 6 P.E. i.e. 0.0446. It indicates that EBL is capable to earn net profit by mobilizing total assets.

Similarly, co-efficient of correlation between total assets and net profit in case of SCBNL and NSBI is found to be 0.9548 and 0.8839 respectively, which indicates high degree of correlation between these two variables. On the other hand, considering the value of co-efficient of determination $r^2$ i.e. it indicates SCBNL to be 91.16% and NSBI to 78.12% respectively of the variation in the dependent variable i.e. net profit has been explained by the independent variables i.e. total assets moreover, considering the probable error since the value of r i.e. 0.9548 of SCBNL & 0.8839 of NSBI is more than 6 P.E. So we can say that there is significant relationship between net profit and total assets of SCBNL & NSBI.

Lastly, we can draw the conclusion from the above analysis that EBL, SCBNL & NSBI has high degree of positive relationship between deposit & investment. The relationship is significant and value of $r^2$ shows the high percent in the dependent variable which has been explained by the independent variable. This indicates that three sample banks are successful to mobilize fund and get return i.e. net profit from such mobilized assets. Moreover, we can further conclude that EBL has slightly higher correlation between total assets and net profit value of $r^2$ in comparison to SCBNL and NSBI. It means EBL is in highest position in its efficiency to get return i.e. total assets and net profit.

### 4.7 Trend Analysis and Projection for Next Five Years

Under this topic, analysis trend of deposit collection, its utilization and net profit of EBL, SCBNL and NSBI are studied. To utilize deposits a commercial bank may grant loan and advances and invest government securities and share & debentures of other companies. Under this topic an attempt is made to analyze trend of deposit. Investment and income of EBL, SCBNL and NSBI and also forecast their trend for next five years. The projections are based on the following assumptions:

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

#### (i) Trend Analysis of Total Deposit

Under this topic and effort has been made to calculate the trend values of deposit of EBL, SCBNL and NSBI for 5 years from 2002/03 to 2006/07 and forecast for next 5 years till 2012.

**Table 4.20**

**Trend Value of Total Deposit**

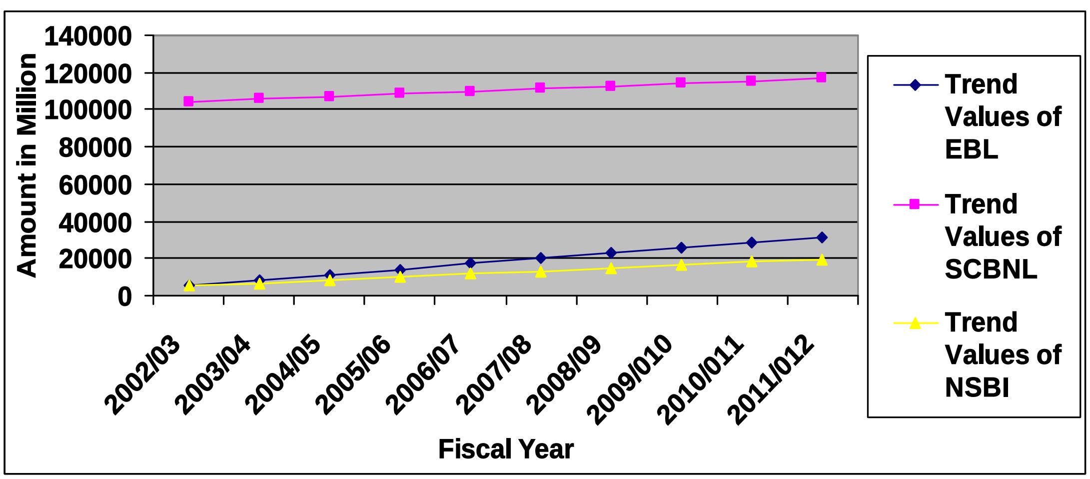
(Rs. in million)

| Year | Trend Values EBL | Trend Values SCBNL | Trend Values NSBI |
|---|---|---|---|
| **2002/03** | 5624.83 | 104223.75 | 5103.21 |
| **2003/04** | 8496.94 | 105591.99 | 6725.70 |
| **2004/05** | 11369.05 | 106960.23 | 8348.19 |
| **2005/06** | 14241.16 | 108328.47 | 9970.68 |
| **2006/07** | 17113.27 | 109696.71 | 11593.17 |
| **2007/08** | 19985.38 | 111064.95 | 13215.66 |
| **2008/09** | 22857.49 | 112433.19 | 14838.15 |
| **2009/010** | 25729.60 | 113801.43 | 16460.64 |
| **2010/011** | 28601.71 | 115169.67 | 18083.13 |
| **2011/012** | 31473.82 | 116537.91 | 19705.62 |

*Sources: Appendix 3(i, iv, vii)*

**Figure 4.5**

**Trend Value of Total Deposit**




The table 4.20 shows that the deposit of all the three banks has the increasing trend. If other thing remains the same, the total deposit of EBL will be 31473.82 million in FY 2011/012 which is highest deposit among the three banks. Similarly deposit of SCBNL & NSBI will be 116537.91 million and 19705.62 million for the FY 2011/012 respectively. From the above trend analysis, it is found that the deposit collection position of EBL is strapping in comparison to SCBNL and NSBI. The calculated trend values of total deposit of EBL, SCBNL & NSBI are fitted in trend line.

**(ii) Trend Analysis of Investment**

Under this topic, the trend values of total investment for five years from 2002/03 to 2006/07 have been calculated and forecasted for next five years from 2007/08 to 2011/012.

The following table 4.21 shows the trend values of total investment for ten years from 2007/08 to 2011/012 of EBL, SCBNL and NSBI.

**Table 4.21**

**Trend Value of Total Investment**

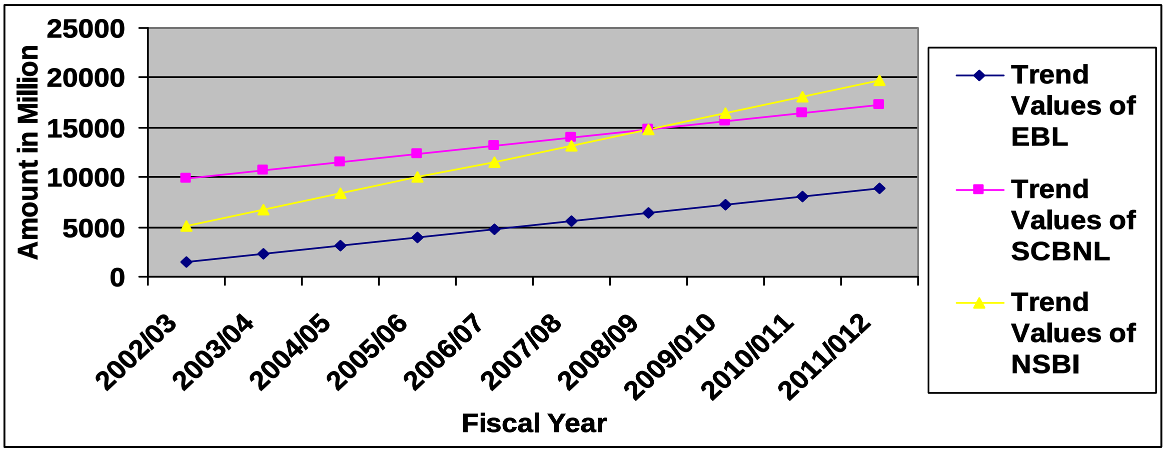
**(Rs in million)**

| Year | Trend Values EBL | Trend Values SCBNL | Trend Values NSBI |
|---|---|---|---|
| **2002/03** | 1435.58 | 9903.71 | 5103.21 |
| **2003/04** | 2268.13 | 10719.84 | 6725.70 |
| **2004/05** | 3100.68 | 11535.97 | 8348.19 |
| **2005/06** | 3933.23 | 12352.10 | 9970.68 |
| **2006/07** | 4765.78 | 13168.23 | 11593.17 |
| **2007/08** | 5598.33 | 13984.36 | 13215.66 |
| **2008/09** | 6430.88 | 14800.49 | 14838.15 |
| **2009/010** | 7263.43 | 15616.62 | 16460.64 |
| **2010/011** | 8095.98 | 16432.75 | 18083.13 |
| **2011/012** | 8928.53 | 17248.88 | 19705.62 |

*Sources: Appendix 3(ii, v, vii)*

**Figure 4.6**

**Trend Value of Total Investment**




The table 4.21 shows the Trend Value of Total Investment of EBL, SCBNL and NSBI. The Table shows the increasing trend value of all the three sample banks. Other things remaining the same the total investment of EBL will be 8928.53 million in the mid July 2012. That is the low investment among three banks. Similarly, the deposit of SCBNL & NSBI will be 17248.88 million and 19705.62 million respectively.

From the above trend analysis, it is found that the total investment of EBL is lowering in compared to SCBNL & NSBI. The calculated trend values of total investment of EBL, SCBNL and NSBI are fitted in the trend line.

**(iii) Trend Analysis of Net Profit**

Under this topic, the trend values of net profit for five years from mid July 2002/03 to 2006/07 have been calculated and forecasted for next five years from mid July 2006/07 to 2011/012.

**Table 4.22**

**Trend Value of Net Profit**

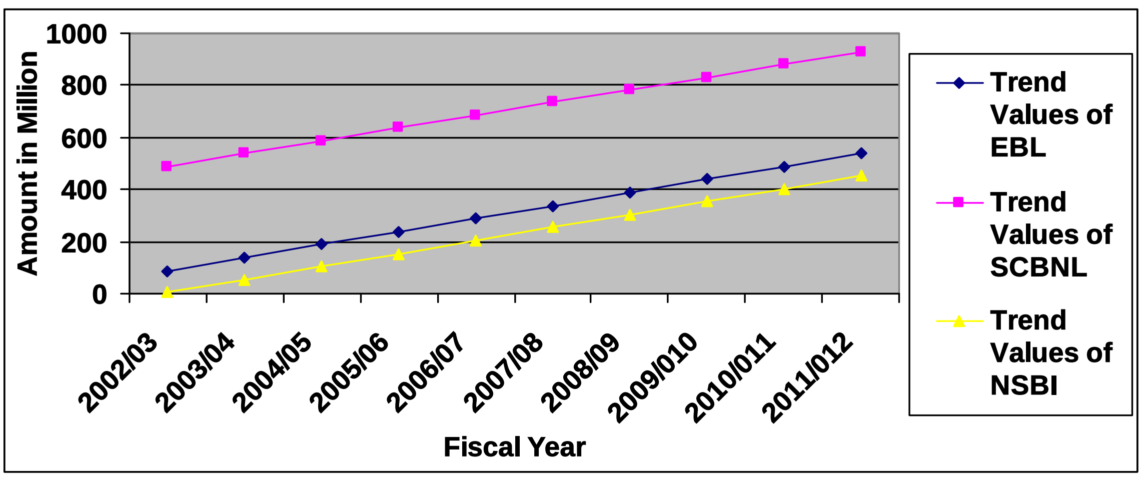
**(Rs in million)**

| Year | Trend Values EBL | Trend Values SCBNL | Trend Values NSBI |
|---|---|---|---|
| **2002/03** | 88.81 | 488.79 | 5.19 |
| **2003/04** | 138.63 | 537.83 | 54.83 |
| **2004/05** | 188.45 | 586.87 | 104.47 |
| **2005/06** | 238.27 | 635.91 | 154.11 |
| **2006/07** | 288.09 | 684.95 | 203.75 |
| **2007/08** | 337.91 | 733.99 | 253.39 |
| **2008/09** | 387.73 | 783.03 | 303.03 |
| **2009/010** | 437.55 | 832.07 | 352.67 |
| **2010/011** | 487.37 | 881.11 | 402.31 |
| **2011/012** | 537.19 | 930.15 | 451.95 |

*Sources: Appendix 3(iii, vi, ix)*

**Figure 4.7**

**Trend Value of Net Profit**




The table 4.22 shows that the net profit of EBL, SCBNL and NSBI is in increasing trend value. Other things remaining the same, the net profit of EBL will be 537.19 million in the mid July 2012. That is the average among the three banks during the study period. Similarly, the net profit of SCBNL and NSBI will be 930.15 million and 451.95 million in mid 2012 respectively.

From the above trend analysis, it is found that the net profit of SCBNL is the highest among three sample banks. The calculated trend values of net profit of EBL, SCBNL and NSBI are fitted in the trend line.

## 4.8 Major Findings

The main findings of the study are derived on the analysis of financial data of EBL, SCBNL and NSBI are given below.

### Liquidity Ratio

The liquidity position of EBL, SCBNL and NSBI reveals that:

- The mean ratio of cash and bank balance to total deposits of NSBI is higher than SCBNL and EBL, It states that cash and bank balance in liquidity position of NSBI higher than other two banks. And the ratio of NSBI is more consistent than that of SCBNL and EBL.
- The mean ratio of cash and bank balance to current deposit of SCBNL is lower than EBL and NSBI. It states that the liquidity position of SCBNL is poorer than that of EBL and NSBI. And the ratio of EBL is more variable than that of other two banks.

### Turnover Ratio

- The mean ratio of total investment to total deposit of NSBI is lower than SCBNL and EBL. The variability of ratios is lower than that of SCBNL and EBL.
- The mean ratio of loan and advances to total deposit of NSBI is higher than that of SCBNL and EBL. The ratio of NSBI is more stable than SCBNL and less than EBL.
- The mean ratio of loan and advances to fixed deposit of EBL is higher than SCBNL and slightly lower than NSBI. The ratio of EBL is more consistent than NSBI and less consistent than SCBNL.
- The mean ratio of loan and Advances to total working fund of EBL is higher than SCBNL and NSBI. The variability of ratios is higher than EBL and lower than SCBNL.
- The mean ratio of Investment on share and debentures to total working fund of EBL has maintained slightly higher ratio than SCBNL and lower ratio than NSBI i.e. 0.15%>

0.08% <0.22%. The co-efficient of variation of SCBNL is higher than that of EBL & NSBI i.e. 62.14%>31.35%>18.40%.

- The mean ratio of investment on government securities to total assets of NSBI is lower in compared to SCBNL and EBL. It reveals that investment on government securities of NSBI is poorer than other two banks. The ratio of NSBI is less consistent than that of SCBNL and EBL.

From the above analysis, it can be concluded that SCBNL fund mobilization in terms of government securities with respect of total working fund is not more satisfactory than that of other tow banks. And SCBNL is not satisfactory of ratios point of view is fund mobilizing term and less homogeneous.

**Profitability Ratio**

The profitability ratio of EBL, SCBNL and NSBI reveal that:

- The mean ratio of return on loan and advances of SCBNL is higher than of NSBI is more consistent than other two banks.
- The mean ratio of total interest earned to loan & advances of EBL is higher than NSBI and slightly lower than SCBNL. The variability of the ratio of EBL is in between in comparison to SCBNL and NSBI.
- The mean ratio of SCBNL return on total working fund is higher than EBL and NSBI. On the other hand EBL is less consistent and homogeneous than SCBNL and NSBI.
- In the mean ratios of Non performing loan to total loan, it is observed that SCBNL has the average mean value which is less than NSBI and higher than of EBL. The co-efficient of variation of EBL is less than other two banks.

**Growth Ratios**

From the analysis of growth ratios of EBL, SCBNL and NSBI it reveals that:

- The growth ratio of EBL deposit is higher than that of SCBNL and NSBI. It means the performance of EBL to collect deposit is greater than SCBNL and NSBI.

- The growth ratio of NSBI loan and advances is higher than that of SCBNL and EBL. It means the performance of NSBI to grant loan and advances in compared to other two banks is better.
- The growth ratio of NSBI total investment is higher than that of SCBNL and EBL it indicates that NSBI has succeeded on the investment than other two banks.
- The growth ratio of NSBI net profit is higher than SCBNL and lower than EBL. It means the performance of NSBI to earn profit is in moderate position in comparison to other two banks.
- From the above analysis, it can be concluded that NSBI has maintained high growth ratios on total deposit, loan advances and total Investment but it has moderate position on net profit. We must say that the bank is successful in increasing its sources and its mobilization.

**Coefficient of Correlation Analysis**

Co-efficient of correlation analysis between different variables of NABIL, SCBNL and HBL, it reveals that:

- EBL has highest value of Co-efficient of correlation between deposit and loan and advances in compared to SCBNL and NSBI.
- EBL has lower value of Co-efficient of correlation between total deposit and total investment in comparison to SCBNL and Higher value in comparison to NSBI. It means EBL is in average position to follow the policy of maximizing the investment of their deposits in comparison to SCBNL and NSBI.
- SCBNL has higher value of co-efficient of correlation between net profit and total assets in comparison to NSBI and lower value in comparison to EBL. SCBNL is in average position in it efficiency to get return i.e. net profit from total assets. From the above analysis, it can be concluded that there is high degree of significant relation ship between deposit and loan and advance, deposit and total investment and total assets and net profit of EBL, SCBNL and NSBI.

**Trend Analysis and Projection for Next Five Years**

The trend analysis of total deposit loan and advances, total investment and net profit and projection for next five years EBL, SCBNL and NSBI reveals that:

- Total deposits of all the three banks have increasing trend. The total deposit of EBL will be 31473.82 million in the mid July of 2012, which is the highest deposit among the sample banks similarly the total deposit of SCBNL & NSBI will be 116537.91 million and 19705.62 million respectively in the mid July of 2012. The deposit collection of SCBNL is lower than EBL and NSBI.
- The total investment of all the three banks has increasing trend. The total investment of EBL will be 8928.53 million in the mid of July 2012 similarly, the total investment of SCBNL and NSBI will be 17248.88 million and 19705.62 million in the mid July 2002. The total investment of EBL is not better in comparison to SCBNL and NSBI.
- The net profit of all three banks has increasing trend. The net profit of EBL will be 537.19 million in the mid of July 2012 that is the highest net profit among three banks. Similarly the net profit of SCBNL and NSBI will be 930.15 million and 451.95 million respectively in the mid July 2012.

# CHAPTER - V

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is an accomplished specific and indicative enclose which contains summary and conclusion of finding and recommendations. Brief introduction to all chapters of the study and genuine information of the present situation under the topic of the study is defined on summary. Conclusions are analysis of applicable data by using various financial and statistical tools, which presents strengths, weakness, opportunities and threats of the CBs. And suggestions are obtainable in recommendation, which is arranged on the based from finding and conclusions.

## 5.1 Summary

The development of any country depends upon its economic development. Economic development demands transformation of savings or invertible resources into the actual investment formation is the prerequisite in setting the overall pace of the development of a country. It is the financial institutions that transfer funds from surplus spending units to deficit units.

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese content, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. Nowadays there are 25 CBs operating in Nepal financial market which is in increasing due to the country moved towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these CBs should take initiative action in search of the new opportunities so that, they can easily survive in this competitive banking business world & earn profit. A bank manager its investment has a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals in the process of channeling the available resources in the needed sector. It plays the role of agent between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institution it is possible that the saving will not be safely and profitable utilized within the economy. It will be diverted aboard into unproductive sectors.

Development of trade, industry and business is the main ground of banks to conduct its activities and fulfill its profit making objectives. The sound investment policy helps all the banks to make profitable investment and which in turns also helps to develop the economic condition of the nation. Investment policy of commercial banks is very risky one. It is the most important factor from the view point of shareholders and bank management. For this, commercial banks have to pay due consideration while formulating investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loans and investment.

Commercial banks are not able to utilize its deposits properly i.e. providing loan and advances or lending for a profitable project, the reason behind it is lack of sound investment policy, increasing trend of this type of situation certainly lead closure of the banking institutions.

Hence, the sufficient return is not earned due to the lack of stable, strong and appropriate investment policy. They have not been able to utilize their funds more efficiently and productively. Though the directions and guidance are being provided by the Nepal Rastra Bank but the long term and published policy about their operation does not sound good in the joint venture banks. Therefore, the banks investment policy must be such that it is sound and prudent in order to protect public funds.

The main focus of the study is to deposit funds utilized in investing purposes of commercial banks of Everest Bank Limited, Standard Chartered Bank Nepal Limited and NSBI and to suggest for its improvement in the mobilization of deposit and reinvestment aspects. The study has been constrained by various common limitations.

The study is based on secondary data from the fiscal year 2002/03 to 2006/07. The data are collected from annual reports, financial statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the bank have also been made.

For the fulfillments of the objectives of the study many analyses have been done. Both financial as well as statistical tools have been used to analyze and interpret the facts and information. Under financial tools, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, profitability ratio and growth ratio have been studied and interpreted. Under statistical analysis, some relevant statistical tools, i.e. correlation co-efficient and trend analysis have been studied and tested. This analysis gives clear picture of the performance of the bank with regard to its investment practices. Financial & statistical tools are used to reckoning and secondary data were compiled, processed, tabulated and graphed for better presentation from which various finding have been shown in above chapter and finally conclusion has been made.

## 5.2 Major Findings

The major findings of the study are pointed out below in detail: -

i. The mean ratio of cash and bank balance to total deposits of NSBI is higher than SCBNL and EBL, It states that cash and bank balance in liquidity position of NSBI higher than other two banks. And the ratio of NSBI is more consistent than that of SCBNL and EBL.
ii. The mean ratio of cash and bank balance to current deposit of SCBNL is lower than EBL and NSBI. It states that the liquidity position of SCBNL is poorer than that of EBL and NSBI. And the ratio of EBL is more variable than that of other two banks.
iii. The mean ratio of total investment to total deposit of NSBI is lower than SCBNL and EBL. The variability of ratios is lower than that of SCBNL and EBL.

iv. The mean ratio of loan and advances to total deposit of NSBI is higher than that of SCBNL and EBL. The ratio of NSBI is more stable than SCBNL and less than EBL.

v. The mean ratio of loan and advances to fixed deposit of EBL is higher than SCBNL and slightly lower than NSBI. The ratio of EBL is more consistent than NSBI and less consistent than SCBNL.

vi. The mean ratio of loan and Advances to total working fund of EBL is higher than SCBNL and NSBI. The variability of ratio is higher than EBL and lower than SCBNL.

vii. The mean ratio of Investment on share and debentures to total working fund of EBL has maintained slightly higher ratio than SCBNL and lower ratio than NSBI i.e. 0.15%> 0.08% < 0.22%. The co-efficient of variation of SCBNL is higher than that of EBL & NSBI i.e. 62.14%>31.35%>18.40%.

viii. The mean ratio of investment on government securities to total assets of NSBI is lower in compared to SCBNL and EBL. It reveals that investment on government securities of NSBI is poorer than other two banks. The ratio of NSBI is less consistent than that of SCBNL and EBL.

ix. The mean ratio of return on loan and advances of SCBNL is higher than of NSBI is more consistent than other two banks. The mean ratio of total interest earned to loan & advances of EBL is higher than NSBI and slightly lower than SCBNL. The variability of the ratio of EBL is in between in comparison to SCBNL and NSBI.

x. The mean ratio of SCBNL return on total working fund is higher than EBL and NSBI. On the other hand EBL is less consistent and homogeneous than SCBNL and NSBI. With reference to the mean ratios of Non performing loan to total loan, it is observed that SCBNL has the average mean value which is less than NSBI and higher than of EBL. The co-efficient of variation of EBL is less than other two banks. The growth ratio of EBL deposit is higher than that of SCBNL and NSBI. It means the performance of EBL to collect deposit is greater than SCBNL and NSBI.

xi. The growth ratio of NSBI loan and advances is higher than that of SCBNL and EBL. It means the performance of NSBI to grant loan and advances in comparison to other two banks is better.

xii. The growth ratio of NSBI total investment is higher than that of SCBNL and EBL which indicates that NSBI has succeeded on the investment than other two banks.

xiii. The growth ratio of NSBI net profit is higher than SCBNL and lower than EBL. It means the performance of NSBI to earn profit is in moderate position in comparison to other two banks.

## 5.3 Conclusion

In concise the whole study can be concluded that SCBNL fund mobilization in terms of government securities with respect of total working fund is not more satisfactory than that of other two banks. NSBI has maintained high growth ratios on total deposit, loan advances and total Investment but it has moderate position on net profit. We must say that the bank is successful in increasing its sources with their mobilization.

EBL has highest value of Co-efficient of correlation between deposit and loan and advances in comparison to SCBNL and NSBI. EBL has lower value of Co-efficient of correlation between total deposit and total investment in comparison to SCBNL and higher value in comparison to NSBI. It means EBL is in average position to follow the policy of maximizing the investment of their deposits in comparison to SCBNL and NSBI. SCBNL has higher value of co-efficient of correlation between net profit and total assets in comparison to NSBI and lower value in comparison to EBL.SCBNL is in average position in it efficiency to get return i.e. net profit from total assets. From the above analysis, it can be concluded that there is high degree of significant relationship between deposit and loan and advance, deposit and total investment and total assets and net profit of EBL, SCBNL and NSBI.

## 5.4 Recommendations

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment policy.

- The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply as demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situation. As EBL has maintained lower cash and banker to total deposit and current assets ratio, EBL is recommended to increase cash and bank balance to meet current obligations and loan demand.

- All the banks need to revise their investment policy and they should mobilize the funds obtained in lucrative sectors. NSBI should improve its credit extending policy. Otherwise, it will not be able to generate additional profit from loans & advances sector.
- To get success is competitive banking environment, depositors money must be utilized as loan and advances. Negligence in administering this assets could be the main cause of liquidity crisis in the bank and one of the main reasons of a bank failure. It has been found from the study that EBL has greater ratios on return on loan and advance, because its large portion of fund invested as loan and advances and negligence to invest on other sector. SCBNL and NSBI have not properly used their existing fund as loan and advances to over come this situation, SCBNL and NSBI are strongly recommended to follow liberal lending policy.
- As bank of private sector commercial banks cannot keep this eyes closed from the profit motive. They should be careful is increasing profit is a real sense to maintain the confidence of shareholders, depositors and it's all customers. SCBNL has high profit earning capacity, but NSBI profitability position is worse than that of other two banks. So, NSBI is strongly recommended to utilize risk assets and shareholders fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheaper fund being more profitable.
- Most of the joint venture banks have focused their banking services especially to big clients such as multinational companies, large-scale industries, manufactures and exporters of garments and carpets. The minimum level bank balance and the amount needed to open an account in there banks are very high amount. So, small depositors are very far from enjoying the banking facilities provided by such joint venture banks. So, all three banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investors' funds and to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme etc.

- In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customers. For this purpose, the banks should develop an "Innovative approach to Bank Marketing" and formulate new strategies of serving customers in a more convenient and satisfactory way.

- Although all banks have recently expanded it's braches all over the country but these banks do not have branches in the rural areas of the country. Its branches are limited to the urban areas only. Therefore, these Banks are recommended to open branches in rural areas too to help in economic development of the country. Government has also encouraged the joint venture banks to expand baking service in rural areas and communities without making unfavorable impact in their profit.

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# Appendix - 1

## i. Cash and Bank balance to Total Deposit Ratio (%)

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Cash and Bank Balance | 1139.57 | 819.25 | 1619.99 | 1552.96 | 2391.43 |
| Total Deposit | 6694.96 | 8063.9 | 10097.69 | 13802.4 | 18186.25 |
| Ratio | 17.02% | 10.16% | 16.04% | 11.25% | 13.15% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Cash and Bank Balance | 3170.21 | 4241.76 | 3370.81 | 1276.24 | 2021.02 |
| Total Deposit | 18755.6 | 21161.44 | 19335.1 | 23061 | 24647.02 |
| Ratio | 16.90% | 20.04% | 17.43% | 5.53% | 8.20% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Cash and Bank Balance | 1619.96 | 1333.53 | 864.43 | 1118.16 | 1122.69 |
| Total Deposit | 5572.47 | 6522.82 | 7198.33 | 11002 | 11445.29 |
| Ratio | 29.07% | 20.44% | 12.01% | 10.16% | 9.81% |

## ii. Cash and Bank Balance to Current Deposit Ratio (%)

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Cash and Bank Balance | 1139.57 | 819.25 | 1619.99 | 1552.96 | 2391.43 |
| Current Deposit | 562.39 | 719.76 | 1025.03 | 1145.79 | 1673.98 |
| Ratio | 202.63% | 113.82% | 158.04% | 135.54% | 142.86% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Cash and Bank Balance | 3170.21 | 4241.76 | 3370.81 | 1276.24 | 2021.02 |
| Current Deposit | 5768.62 | 5816.94 | 4356.34 | 4681.94 | 4794.53 |
| Ratio | 54.96% | 72.92% | 77.38% | 27.26% | 42.15% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Cash and Bank Balance | 1619.96 | 1333.53 | 864.43 | 1118.16 | 1122.69 |
| Current Deposit | 1086.7 | 1300.07 | 1672.68 | 1408.3 | 1930.43 |
| Ratio | 149.07% | 102.57% | 51.68% | 79.40% | 58.16% |

**iii. Total Investment to Total Deposit Ratio (%)**

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Total Investment | 1653.98 | 2535.66 | 2128.93 | 4200.52 | 4984.31 |
| Total Deposit | 6694.96 | 8063.9 | 10097.69 | 13802.4 | 18186.25 |
| Ratio | 24.70% | 31.44% | 21.08% | 30.43% | 27.41% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Total Investment | 10216.2 | 11360.33 | 9702.55 | 12847.5 | 13553.23 |
| Total Deposit | 18755.6 | 21161.44 | 19335.1 | 23061 | 24647.02 |
| Ratio | 54.47% | 53.68% | 50.18% | 55.71% | 54.99% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Total Investment** | 599.06 | 1207.28 | 1907.52 | 3758.98 | 2659.45 |
| **Total Deposit** | 5572.47 | 6522.82 | 7198.33 | 11002 | 11445.29 |
| **Ratio** | 10.75% | 18.51% | 26.50% | 34.17% | 23.24% |

### iv. Loan and Advances to Total Deposit Ratio (%)

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Loan and Advances** | 4908.46 | 5884.12 | 7618.67 | 9801.31 | 13664.08 |
| **Total Deposit** | 6694.96 | 8063.9 | 10097.69 | 13802.4 | 18186.25 |
| **Ratio** | 73.32% | 72.97% | 75.45% | 71.01% | 75.13% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Loan and Advances** | 5695.82 | 6410.24 | 8143.21 | 8935.42 | 10502.64 |
| **Total Deposit** | 18755.6 | 21161.44 | 19335.1 | 23061 | 24647.02 |
| **Ratio** | 30.37% | 30.29% | 42.12% | 38.75% | 42.61% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Loan and Advances** | 4299.25 | 4468.72 | 5143.66 | 7626.74 | 9460.45 |
| **Total Deposit** | 5572.47 | 6522.82 | 7198.33 | 11002 | 11445.29 |
| **Ratio** | 77.15% | 68.51% | 71.46% | 69.32% | 82.66% |

### v. Loan & Advance to Fixed Deposit Ratio (%)

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Loan & Advance | 4908.46 | 5884.12 | 7618.67 | 9801.31 | 13664.08 |
| Fixed Deposit | 2757.95 | 3730.61 | 4806.83 | 4242.35 | 5626.66 |
| Ratio | 177.97% | 157.73% | 158.50% | 231.03% | 242.85% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Loan & Advance | 5695.82 | 6410.24 | 8143.21 | 8935.42 | 10502.64 |
| Fixed Deposit | 10633.2 | 12771.83 | 13030.93 | 14597.7 | 15244.38 |
| Ratio | 53.57% | 50.19% | 62.49% | 61.21% | 68.90% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Loan & Advance | 4299.25 | 4468.72 | 5143.66 | 7626.74 | 9460.45 |
| Fixed Deposit | 1274.69 | 1633.03 | 2043.02 | 6116.17 | 5517.47 |
| Ratio | 337.28% | 273.65% | 251.77% | 124.70% | 171.46% |

### vi. Loan and Advances to Total Assets Ratio

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Loan and Advances | 4908.46 | 5884.12 | 7618.67 | 9801.31 | 13664.08 |
| Total Assets | 8052.21 | 9608.57 | 11792.13 | 15959.3 | 21432.57 |
| Ratio | 60.96% | 61.24% | 64.61% | 61.41% | 63.75% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Loan and Advances** | 5695.82 | 6410.24 | 8143.21 | 8935.42 | 10502.64 |
| **Total Assets** | 20911 | 23642.06 | 21893.58 | 25776.3 | 28596.69 |
| **Ratio** | 27.24% | 27.11% | 37.19% | 34.67% | 36.73% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Loan and Advances** | 4299.25 | 4468.72 | 5143.66 | 7626.74 | 9460.45 |
| **Total Assets** | 7021.14 | 7566.32 | 8440.41 | 13035.8 | 13901.2 |
| **Ratio** | 61.23% | 59.06% | 60.94% | 58.51% | 68.05% |

### vii. Investment on Share and Debenture to Total Working Fund Ratio (%)

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Investment on S& D** | 17.11 | 17.11 | 19.39 | 19.89 | 19.89 |
| **Total Working Fund** | 8052.21 | 9608.57 | 11792.13 | 15959.3 | 21432.57 |
| **Ratio** | 0.21% | 0.18% | 0.16% | 0.12% | 0.09% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Investment on S& D** | 11.2 | 11.2 | 13.35 | 15.35 | 44.94 |
| **Total Working Fund** | 20911 | 23642.06 | 21893.58 | 25776.3 | 28596.69 |
| **Ratio** | 0.05% | 0.05% | 0.06% | 0.06% | 0.16% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Investment on S& D | 17.89 | 17.89 | 17.89 | 19.54 | 31.94 |
| Total Working Fund | 7021.14 | 7566.32 | 8440.41 | 13035.8 | 13901.2 |
| Ratio | 0.25% | 0.24% | 0.21% | 0.15% | 0.23% |

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

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Investment Govt. Securities | 1599.35 | 2466.43 | 2100.29 | 3548.61 | 4704.63 |
| Total Working Fund | 8052.21 | 9608.57 | 11792.13 | 15959.3 | 21432.57 |
| Ratio | 19.86% | 25.67% | 17.81% | 22.24% | 21.95% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Investment Govt. Securities | 6581.35 | 7948.22 | 7203.07 | 8635.88 | 7107.94 |
| Total Working Fund | 20911 | 23642.06 | 21893.58 | 25776.3 | 28596.69 |
| Ratio | 31.47% | 33.62% | 32.90% | 33.50% | 24.86% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Investment Govt. Securities | 503.17 | 1189.39 | 1871.46 | 3591.77 | 2345.58 |
| Total Working Fund | 7021.14 | 7566.32 | 8440.41 | 13035.8 | 13901.2 |
| Ratio | 7.17% | 15.72% | 22.17% | 27.55% | 16.87% |

### ix. Return Total Working Fund Ratio (%)

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Net Profit | 94.18 | 143.57 | 170.81 | 237.29 | 296.41 |
| Total Working Fund | 8052.21 | 9608.57 | 11792.13 | 15959.3 | 21432.57 |
| Ratio | 1.17% | 1.49% | 1.45% | 1.49% | 1.38% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Net Profit | 506.93 | 537.8 | 539.2 | 658.76 | 691.67 |
| Total Working Fund | 20911 | 23642.06 | 21893.58 | 25776.3 | 28596.69 |
| Ratio | 2.42% | 2.27% | 2.46% | 2.56% | 2.42% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Net Profit | 40.84 | 48.75 | 60.85 | 117 | 254.91 |
| Total Working Fund | 7021.14 | 7566.32 | 8440.41 | 13035.8 | 13901.2 |
| Ratio | 0.58% | 0.64% | 0.72% | 0.90% | 1.83% |

### x. Total Interest Earned to Loan & Advance Ratio (%)

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Total Interest Earned | 520.17 | 657.25 | 719.3 | 903.41 | 1144.41 |
| Loan & Advance | 4908.46 | 5884.12 | 7618.67 | 9801.31 | 13664.08 |
| Ratio | 10.60% | 11.17% | 9.44% | 9.22% | 8.38% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Total Interest Earned** | 1001.36 | 1042.18 | 1058.68 | 1189.6 | 1411.94 |
| **Loan & Advance** | 5695.82 | 6410.24 | 8143.21 | 8935.42 | 10502.64 |
| **Ratio** | 17.58% | 16.26% | 13.00% | 13.31% | 13.44% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Total Interest Earned** | 389.63 | 469.74 | 493.6 | 708.72 | 831.12 |
| **Loan & Advance** | 4299.25 | 4468.72 | 5143.66 | 7626.74 | 9460.45 |
| **Ratio** | 9.06% | 10.51% | 9.60% | 9.29% | 8.79% |

### xi. Return on Loan and Advances (%)

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Net Profit** | 94.18 | 143.57 | 170.81 | 237.29 | 296.41 |
| **Loan and Advances** | 4908.46 | 5884.12 | 7618.67 | 9801.31 | 13664.08 |
| **Ratio** | 1.92% | 2.44% | 2.24% | 2.42% | 2.17% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| **Net Profit** | 506.93 | 537.8 | 539.2 | 658.76 | 691.67 |
| **Loan and Advances** | 5695.82 | 6410.24 | 8143.21 | 8935.42 | 10502.64 |
| **Ratio** | 8.90% | 8.39% | 6.62% | 7.37% | 6.59% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Net Profit | 40.84 | 48.75 | 60.85 | 117 | 254.91 |
| Loan and Advances | 4299.25 | 4468.72 | 5143.66 | 7626.74 | 9460.45 |
| Ratio | 0.95% | 1.09% | 1.18% | 1.53% | 2.69% |

**xii. Non-performing to Loan and Advances (%)**

**EBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Non-performing | 111.19 | 104.76 | 128.81 | 129.23 | 113.18 |
| Loan and Advances | 4908.46 | 5884.12 | 7618.67 | 9801.31 | 13664.08 |
| Ratio | 2.27% | 1.78% | 1.69% | 1.32% | 0.83% |

**SCBL**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Non-performing | 252.2 | 247.95 | 226.31 | 195.93 | 197.02 |
| Loan and Advances | 5695.82 | 6410.24 | 8143.21 | 8935.42 | 10502.64 |
| Ratio | 4.43% | 3.87% | 2.78% | 2.19% | 1.88% |

**NSBI**

| Fiscal Year | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---|---|---|---|---|---|
| Non-performing | 561.67 | 345.82 | 441.02 | 520.26 | 45.8 |
| Loan and Advances | 4299.25 | 4468.72 | 5143.66 | 7626.74 | 9460.45 |
| Ratio | 13.06% | 7.74% | 8.57% | 6.82% | 0.48% |

**xiii. Growth Rate**

**Sample Calculation of Growth Rate of Total Deposit of EBL**

Growth rate is calculated from

$D_n = D_o(1+g)^{n-1}$

$D_n$ = Total deposit of $n^{th}$ year.

$D_o$ = Total deposit of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 18186.25$ $D_{2002/03} = 6694.96$ $N = 5$

$D_{2006/07} = D_{2002/03}(1+g)^{n-1}$

Or, $18186.25 = 6694.96(1+g)^{5-1}$

Or, $2.716 = (1+g)^4$ Or, $1+g = (2.716)^{1/4}$ $g = 0.2838$ or 28.38%

**Sample Calculation of Growth Rate of Total Deposit of SCBL**

Growth rate is calculated from

$D_n = D_o(1+g)^{n-1}$

$D_n$ = Total deposit of $n^{th}$ year.

$D_o$ = Total deposit of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 24647.02$ $D_{2002/03} = 18755.6$ $N = 5$

$D_{2006/07} = D_{2002/03}(1+g)^{n-1}$

Or, $24647.02 = 18755.6(1+g)^{5-1}$

Or, $1.314 = (1+g)^4$ Or, $1+g = (1.314)^{1/4}$ $g = 0.0707$ or 7.07%

**Sample Calculation of Growth Rate of Total Deposit of NSBI**

Growth rate is calculated from

$D_n$ X$D_o(1 \Gamma g)^{nZ1}$

$D_n$ XTotal deposit of $n^{th}$ year.

$D_o$ XTotal deposit of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 11445.29$ $D_{2002/03} = 5572.47$ $N = 5$

$D_{2006/07} = D_{2002/03}$ ƒ1+gÅ$^{n-1}$

Or, $11445.29 = 5572.47\ (1+g)^{5-1}$

Or, $2.054 = (1+g)^4$ Or, $1+g = (2.054)^{1/4}$ $g = 0.1972$ or 19.72%

**Sample Calculation of Growth Rate of Loan & Advances of EBL**

Growth rate is calculated from

$D_n$ X$D_o(1 \Gamma g)^{nZ1}$

$D_n$ XLoan & Advances of $n^{th}$ year.

$D_o$ XLoan & Advances of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 13664.08$ $D_{2002/03} = 4908.46$ $N = 5$

$D_{2006/07} = D_{2002/03}$ ƒ1+gÅ$^{n-1}$

Or, $13664.08 = 4908.46(1+g)^{5-1}$

Or, $2.784 = (1+g)^4$ Or, $1+g = (2.784)^{1/4}$ $g = 0.2917$ or 29.17%

**Sample Calculation of Growth Rate of Loan & Advances of SCBL**

Growth rate is calculated from

$D_n$ X$D_o(1 \Gamma g)^{nZ1}$

$D_n$ XLoan & Advances of n[th] year.

$D_o$ XLoan & Advances of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 10502.64$ $D_{2002/03} = 5695.82$ N = 5

$D_{2006/07} = D_{2002/03}$ ƒ1+gÅ$^{n-1}$

Or, $10502.64 = 5695.82(1+g)^{5-1}$

Or, $1.844 = (1+g)^4$ Or, $1+g = (1.844)^{1/4}$ g = 0.1653 or 16.53%

**Sample Calculation of Growth Rate of Loan & Advances of NSBI**

Growth rate is calculated from

$D_n$ X$D_o(1 \Gamma g)^{nZ1}$

$D_n$ XLoan & Advances of n[th] year.

$D_o$ XLoan & Advances of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 9460.45$ $D_{2002/03} = 4299.25$ N = 5

$D_{2006/07} = D_{2002/03}$ ƒ1+gÅ$^{n-1}$

Or, $9460.45 = 4299.25(1+g)^{5-1}$

Or, $2.200 = (1+g)^4$ Or, $1+g = (2.200)^{1/4}$ g = 0.2179 or 21.79%

**Sample Calculation of Growth Rate of Total Investment of EBL**

Growth rate is calculated from

$D_n = D_o(1+g)^{n-1}$

$D_n$ = Total Investment of $n^{th}$ year.

$D_o$ = Total Investment of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 4984.31$ $\quad D_{2002/03} = 1653.98$ $\quad N = 5$

$D_{2006/07} = D_{2002/03}(1+g)^{n-1}$

Or, $4984.31 = 1653.98(1+g)^{5-1}$

Or, $3.014 = (1+g)^4$ $\quad$ Or, $1+g = (3.014)^{1/4}$ $\quad g = 0.3176$ or 31.76%

**Sample Calculation of Growth Rate of Total Investment of SCBL**

Growth rate is calculated from

$D_n = D_o(1+g)^{n-1}$

$D_n$ = Total Investment of $n^{th}$ year.

$D_o$ = Total Investment of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 13553.23$ $\quad D_{2002/03} = 10216.2$ $\quad N = 5$

$D_{2006/07} = D_{2002/03}(1+g)^{n-1}$

Or, $13553.23 = 10216.2(1+g)^{5-1}$

Or, $1.327 = (1+g)^4$ $\quad$ Or, $1+g = (1.327)^{1/4}$ $\quad g = 0.0733$ or 7.33%

**Sample Calculation of Growth Rate of Total Investment of NSBI**

Growth rate is calculated from

$D_n \, X D_o (1 \Gamma g)^{nZ1}$

$D_n$ XTotal Investment of n$^{th}$ year.

$D_o$ XTotal Investment of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 2659.45$ $D_{2002/03} = 599.06$ N = 5

$D_{2006/07} = D_{2002/03}\, ƒ1+gÅ^{n-1}$

Or, $2659.45 = 599.06(1+g)^{5-1}$

Or, $4.440 = (1+g)^4$ Or, $1+g = (4.440)^{1/4}$ g = 0.4516 or 45.16%

**Sample Calculation of Growth Rate of Net Profit of EBL**

Growth rate is calculated from

$D_n \, X D_o (1 \Gamma g)^{nZ1}$

$D_n$ XNet Profit of n$^{th}$ year.

$D_o$ XNet Profit of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 296.41$ $D_{2002/03} = 94.18$ N = 5

$D_{2006/07} = D_{2002/03}\, ƒ1+gÅ^{n-1}$

Or, $296.41 = 94.18(1+g)^{5-1}$

Or, $3.147 = (1+g)^4$ Or, $1+g = (3.147)^{1/4}$ g = 0.3319 or 33.19%

**Sample Calculation of Growth Rate of Net Profit of SCBL**

Growth rate is calculated from

$D_n = D_o(1+g)^{n-1}$

$D_n$ = Net Profit of $n^{th}$ year.

$D_o$ = Net Profit of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 691.67$ $\quad D_{2002/03} = 506.93$ $\quad N = 5$

$D_{2006/07} = D_{2002/03}(1+g)^{n-1}$

Or, $691.67 = 506.93(1+g)^{5-1}$

Or, $1.365 = (1+g)^4$ $\quad$ Or, $1+g = (1.365)^{1/4}$ $\quad$ $g = 0.0809$ or 8.09%

**Sample Calculation of Growth Rate of Net Profit of NSBI**

Growth rate is calculated from

$D_n = D_o(1+g)^{n-1}$

$D_n$ = Net Profit of $n^{th}$ year.

$D_o$ = Net Profit of initial year.

G = Growth rate.

N = Number of year.

$D_{2006/07} = 254.91$ $\quad D_{2002/03} = 40.84$ $\quad N = 5$

$D_{2006/07} = D_{2002/03}(1+g)^{n-1}$

Or, $254.91 = 40.84(1+g)^{5-1}$

Or, $6.242 = (1+g)^4$ $\quad$ Or, $1+g = (6.242)^{1/4}$ $\quad$ $g = 0.5806$ or 58.06%

# Appendix – 2

**i. Coefficient Correlation between Total Deposit to Loan and Advances**

**EBL**

| F/Y | Total Deposit | Loan and Advances | |
|---|---|---|---|
| **2002/03** | 6694.96 | 4908.46 | |
| **2003/04** | 8063.90 | 5884.12 | |
| **2004/05** | 10097.69 | 7618.67 | |
| **2005/06** | 13802.44 | 9801.31 | |
| **2006/07** | 18186.25 | 13664.08 | |
| r | | | **0.9976** |
| $r^2$ | | | **0.9953** |
| P.E. | | | **0.0014** |
| 6P.E. | | | **0.0085** |

**SCBNL**

| F/Y | Total Deposit | Loan and Advances | |
|---|---|---|---|
| **2002/03** | 18755.64 | 5695.82 | |
| **2003/04** | 21161.44 | 6410.24 | |
| **2004/05** | 19335.10 | 8143.21 | |
| **2005/06** | 23061.03 | 8935.42 | |
| **2006/07** | 24647.02 | 10502.6 | |
| r | | | **0.8257** |
| $r^2$ | | | **0.6818** |
| P.E. | | | **0.0960** |
| 6P.E. | | | **0.5758** |

**NSBI**

| F/Y | Total Deposit | Loan and Advances | |
|---|---|---|---|
| **2002/03** | 5572.47 | 4299.25 | |
| **2003/04** | 6522.82 | 4468.72 | |
| **2004/05** | 7198.33 | 5143.66 | |
| **2005/06** | 11002.04 | 7626.74 | |
| **2006/07** | 11445.29 | 9460.45 | |
| r | | | **0.9679** |
| $r^2$ | | | **0.9368** |
| P.E. | | | **0.0191** |
| 6P.E. | | | **0.1143** |

### ii. Correlation Coefficient between Total Deposit to Total Investment

**EBL**

| F/Y | Total Deposit | Total Investment | |
|---|---|---|---|
| **2002/03** | 6694.96 | 1653.98 | |
| **2003/04** | 8063.90 | 2535.66 | |
| **2004/05** | 10097.69 | 2128.93 | |
| **2005/06** | 13802.44 | 4200.52 | |
| **2006/07** | 18186.25 | 4984.31 | |
| | r | | **0.9565** |
| | $r^2$ | | **0.9149** |
| | P.E. | | **0.0257** |
| | 6P.E. | | **0.1540** |

**SCBNL**

| F/Y | Total Deposit | Total Investment | |
|---|---|---|---|
| **2002/03** | 18755.64 | 10216.20 | |
| **2003/04** | 21161.44 | 11360.33 | |
| **2004/05** | 19335.10 | 9702.55 | |
| **2005/06** | 23061.03 | 12847.54 | |
| **2006/07** | 24647.02 | 13553.23 | |
| | r | | **0.9786** |
| | $r^2$ | | **0.9576** |
| | P.E. | | **0.0128** |
| | 6P.E. | | **0.0768** |

**NSBI**

| F/Y | Total Deposit | Total Investment | |
|---|---|---|---|
| **2002/03** | 5572.47 | 599.06 | |
| **2003/04** | 6522.82 | 1207.28 | |
| **2004/05** | 7198.33 | 1907.52 | |
| **2005/06** | 11002.04 | 3758.98 | |
| **2006/07** | 11445.29 | 2659.45 | |
| | r | | **0.9119** |
| | $r^2$ | | **0.8316** |
| | P.E. | | **0.0508** |
| | 6P.E. | | **0.3048** |

### iii. Correlation Coefficient between Total Assets and Net Profit

**EBL**

| F/Y | Total Assets | Net Profit | |
|---|---|---|---|
| **2002/03** | 8052.21 | 94.18 | |
| **2003/04** | 9608.57 | 143.57 | |
| **2004/05** | 11792.13 | 170.81 | |
| **2005/06** | 15959.28 | 237.29 | |
| **2006/07** | 21432.57 | 296.41 | |
| r | | | **0.9876** |
| $r^2$ | | | **0.9753** |
| P.E. | | | **0.0074** |
| 6P.E. | | | **0.0446** |

**SCBNL**

| F/Y | Total Assets | Net Profit | |
|---|---|---|---|
| **2002/03** | 20910.97 | 506.93 | |
| **2003/04** | 23642.06 | 537.80 | |
| **2004/05** | 21893.58 | 539.20 | |
| **2005/06** | 25776.33 | 658.76 | |
| **2006/07** | 28596.69 | 691.67 | |
| r | | | **0.9548** |
| $r^2$ | | | **0.9116** |
| P.E. | | | **0.0267** |
| 6P.E. | | | **0.1601** |

**NSBI**

| F/Y | Total Assets | Net Profit | |
|---|---|---|---|
| **2002/03** | 7021.14 | 40.84 | |
| **2003/04** | 7566.32 | 48.75 | |
| **2004/05** | 8440.41 | 60.85 | |
| **2005/06** | 13035.84 | 117.00 | |
| **2006/07** | 13901.20 | 254.91 | |
| r | | | **0.8839** |
| $r^2$ | | | **0.7812** |
| P.E. | | | **0.0660** |
| 6P.E. | | | **0.3959** |

# Appendix – 3

i. Trend Value Of Total Deposit of EBL

**( Rs. In Million)**

| Fiscal Year(t) | Total Deposit(y) | X=(t-2005) | $X^2$ | xy |
|---|---|---|---|---|
| 2002/03 | 6694.96 | -2 | 4 | -13389.92 |
| 2003/04 | 8063.90 | -1 | 1 | -8063.90 |
| 2004/05 | 10097.69 | 0 | 0 | 0.00 |
| 2005/06 | 13802.44 | 1 | 1 | 13802.44 |
| 2006/07 | 18186.25 | 2 | 4 | 36372.50 |
| **N=5** | **56845.24** | **0** | **10** | **28721.12** |

$$a = | \frac{\phi y}{N} = \frac{56845.24}{5} = 11369.05$$

$$b = \frac{\phi xy}{\phi x2} = \frac{28721.12}{10} = 2872.11$$

The Equation of the Straight Line Trend is ;

$$Y_c = a + bx$$

$$Y_c = 11369.05 + 2872.11x$$

| Year | x = (t – 2003) | Trend Value $Y_c = 11369.05 + 2872.11x$ |
|---|---|---|
| 2002/03 | -2 | 5624.83 |
| 2003/04 | -1 | 8496.94 |
| 2004/05 | 0 | 11369.05 |
| 2005/06 | 1 | 14241.16 |
| 2006/07 | 2 | 17113.27 |
| 2007/08 | 3 | 19985.38 |
| 2008/09 | 4 | 22857.49 |
| 2009/10 | 5 | 25729.60 |
| 2010/11 | 6 | 28601.71 |
| 2011/12 | 7 | 31473.82 |

ii. Trend Value Of Total Investment of EBL

**( Rs. In Million)**

| **Fiscal Year(t)** | **Total Investment (y)** | **X=(t-2005)** | **$X^2$** | **xy** |
|---|---|---|---|---|
| 2002/03 | 1653.98 | -2 | 4 | -3307.96 |
| 2003/04 | 2535.66 | -1 | 1 | -2535.66 |
| 2004/05 | 2128.93 | 0 | 0 | 0.00 |
| 2005/06 | 4200.52 | 1 | 1 | 4200.52 |
| 2006/07 | 4984.31 | 2 | 4 | 9968.62 |
| **N=5** | **15503.40** | **0** | **10** | **8325.52** |

$$a = \frac{\phi y}{N} = \frac{15503.40}{5} = 3100.68$$

$$b = \frac{\phi xy}{\phi x2} = \frac{8325.52}{10} = 832.55$$

The Equation of the Straight Line Trend is ;

$$Y_c = a + bx$$

$$Y_c = 3100.68 + 832.55x$$

| **Year** | **x = (t – 2003)** | **Trend Value $Y_c$ = 3100.68 + 832.55x** |
|---|---|---|
| 2002/03 | -2 | 1435.85 |
| 2003/04 | -1 | 2268.13 |
| 2004/05 | 0 | 3100.68 |
| 2005/06 | 1 | 3933.23 |
| 2006/07 | 2 | 4765.78 |
| 2007/08 | 3 | 5598.33 |
| 2008/09 | 4 | 6430.88 |
| 2009/10 | 5 | 7263.43 |
| 2010/11 | 6 | 8095.98 |
| 2011/12 | 7 | 8928.53 |

iii. Trend Value Of Net Profit of EBL

**( Rs. In Million)**

| **Fiscal Year(t)** | **Total Profit(y)** | **X=(t-2005)** | **$X^2$** | **xy** |
|---|---|---|---|---|
| 2002/03 | 94.18 | -2 | 4 | -188.36 |
| 2003/04 | 143.57 | -1 | 1 | -143.57 |
| 2004/05 | 170.81 | 0 | 0 | 0.00 |
| 2005/06 | 237.29 | 1 | 1 | 237.29 |
| 2006/07 | 296.41 | 2 | 4 | 592.82 |
| **N=5** | **942.26** | **0** | **10** | **498.18** |

$$a = | \frac{\phi y}{N} = \frac{942.26}{5} = 188.45$$

$$b = \frac{\phi xy}{\phi x2} = \frac{498.18}{10} = 49.82$$

The Equation of the Straight Line Trend is ;

$$Y_c = a + bx$$

$$Y_c = 188.45 + 49.82x$$

| **Year** | **x = (t – 2003)** | **Trend Value $Y_c$ = 188.45 + 49.82x** |
|---|---|---|
| 2002/03 | -2 | 88.81 |
| 2003/04 | -1 | 138.63 |
| 2004/05 | 0 | 188.45 |
| 2005/06 | 1 | 238.27 |
| 2006/07 | 2 | 288.09 |
| 2007/08 | 3 | 337.91 |
| 2008/09 | 4 | 387.73 |
| 2009/10 | 5 | 437.55 |
| 2010/11 | 6 | 487.37 |
| 2011/12 | 7 | 537.19 |

iv. Trend Value Of Total Deposit of SCBNL

**( Rs. In Million)**

| **Fiscal Year(t)** | **Total Deposit (y)** | **X=(t-2005)** | **$X^2$** | **xy** |
|---|---|---|---|---|
| 2002/03 | 18755.64 | -2 | 4 | -37511.28 |
| 2003/04 | 21161.44 | -1 | 1 | -21161.11 |
| 2004/05 | 19335.10 | 0 | 0 | 0 |
| 2005/06 | 23061.03 | 1 | 1 | 23061.03 |
| 2006/07 | 24647.02 | 2 | 4 | 49294.04 |
| **N=5** | **106960.23** | **0** | **10** | **13682.35** |

$$a = \frac{\phi y}{N} = \frac{106960.23}{5} = 21392.05$$

$$b = \frac{\phi xy}{\phi x2} = \frac{13682.35}{10} = 1368.24$$

The Equation of the Straight Line Trend is ;

$$Y_c = a + bx$$

$$Y_c = 106960.23 + 1368.24x$$

| **Year** | **x = (t – 2003)** | **Trend Value$Y_c$ =106960.23 + 1368.24x** |
|---|---|---|
| 2002/03 | -2 | 104223.75 |
| 2003/04 | -1 | 105591.99 |
| 2004/05 | 0 | 106960.23 |
| 2005/06 | 1 | 108328.47 |
| 2006/07 | 2 | 109696.71 |
| 2007/08 | 3 | 111064.95 |
| 2008/09 | 4 | 112433.19 |
| 2009/10 | 5 | 113801.43 |
| 2010/11 | 6 | 115169.67 |
| 2011/12 | 7 | 116537.91 |

v. Trend Value Of Total Investment of SCBNL

**( Rs. In Million)**

| **Fiscal Year(t)** | **Total Investment (y)** | **X=(t-2005)** | **$X^2$** | **xy** |
|---|---|---|---|---|
| 2002/03 | 10216.20 | -2 | 4 | -20432.4 |
| 2003/04 | 11360.33 | -1 | 1 | -11360.33 |
| 2004/05 | 9702.55 | 0 | 0 | 0 |
| 2005/06 | 12847.54 | 1 | 1 | 13847.54 |
| 2006/07 | 13553.23 | 2 | 4 | 27106.46 |
| **N=5** | **57679.85** | **0** | **10** | **8161.27** |

$$a = \frac{\phi y}{N} = \frac{57679.85}{5} = 11535.97$$

$$b = \frac{\phi xy}{\phi x2} = \frac{8161.27}{10} = 816.13$$

The Equation of the Straight Line Trend is ;

$$Y_c = a + bx$$

$$Y_c = 11535.97 + 816.13x$$

| **Year** | **x = (t – 2003)** | **Trend Value$Y_c$ =11535.97 + 816.13x** |
|---|---|---|
| 2002/03 | -2 | 9903.71 |
| 2003/04 | -1 | 10719.84 |
| 2004/05 | 0 | 11535.97 |
| 2005/06 | 1 | 12352.10 |
| 2006/07 | 2 | 13168.23 |
| 2007/08 | 3 | 13984.36 |
| 2008/09 | 4 | 14800.49 |
| 2009/10 | 5 | 15616.62 |
| 2010/11 | 6 | 16432.75 |
| 2011/12 | 7 | 17248.88 |

vi. Trend Value Of Net Profit of SCBNL

**( Rs. In Million)**

| **Fiscal Year(t)** | **Total Investment (y)** | **X=(t-2005)** | **$X^2$** | **xy** |
|---|---|---|---|---|
| 2002/03 | 506.93 | -2 | 4 | -1013.86 |
| 2003/04 | 537.80 | -1 | 1 | -537.8 |
| 2004/05 | 539.20 | 0 | 0 | 0 |
| 2005/06 | 685.76 | 1 | 1 | 658.76 |
| 2006/07 | 691.67 | 2 | 4 | 1383.34 |
| **N=5** | **2934.36** | **0** | **10** | **490.44** |

$$a = | \frac{\phi y}{N} = \frac{2934.36}{5} = 586.87$$

$$b = \frac{\phi xy}{\phi x2} = \frac{490.44}{10} = 49.04$$

The Equation of the Straight Line Trend is ;

$$Y_c = a + bx$$

$$Y_c = 586.87 + 49.04x$$

| **Year** | **x = (t – 2003)** | **Trend Value$Y_c$ =586.87 + 49.04x** |
|---|---|---|
| 2002/03 | -2 | 488.79 |
| 2003/04 | -1 | 537.83 |
| 2004/05 | 0 | 586.87 |
| 2005/06 | 1 | 635.91 |
| 2006/07 | 2 | 684.95 |
| 2007/08 | 3 | 733.99 |
| 2008/09 | 4 | 783.03 |
| 2009/10 | 5 | 832.07 |
| 2010/11 | 6 | 881.11 |
| 2011/12 | 7 | 930.15 |

vii. Trend Value Of Total Deposit Of NSBI

**( Rs. In Million)**

| **Fiscal Year(t)** | **Total Deposit (y)** | **X=(t-2005)** | **$X^2$** | **xy** |
|---|---|---|---|---|
| 2002/03 | 5572.47 | -2 | 4 | -11144.94 |
| 2003/04 | 6522.82 | -1 | 1 | -6522.82 |
| 2004/05 | 7198.33 | 0 | 0 | 0.00 |
| 2005/06 | 11002.04 | 1 | 1 | 11002.04 |
| 2006/07 | 11445.29 | 2 | 4 | 22890.58 |
| **N=5** | **41740.95** | **0** | **10** | **16224.86** |

$$a = | \frac{\phi y}{N} = \frac{41740.95}{5} = 8348.19$$

$$b = \frac{\phi xy}{\phi x2} = \frac{16224.86}{10} = 1622.49$$

The Equation of the Straight Line Trend is ;

$$Y_c = a + bx$$

$$Y_c = 8348.19 + 1622.49x$$

| **Year** | **x = (t – 2003)** | **Trend Value$Y_c$ =8348.19 + 1622.49x** |
|---|---|---|
| 2002/03 | -2 | 5103.21 |
| 2003/04 | -1 | 6725.70 |
| 2004/05 | 0 | 8348.19 |
| 2005/06 | 1 | 9970.68 |
| 2006/07 | 2 | 11593.17 |
| 2007/08 | 3 | 13215.66 |
| 2008/09 | 4 | 14838.15 |
| 2009/10 | 5 | 16460.64 |
| 2010/11 | 6 | 18083.13 |
| 2011/12 | 7 | 19705.62 |

viii. Trend Value Of Total Investment of NSBI

**( Rs. In Million)**

| Fiscal Year(t) | Total Investment (y) | X=(t-2005) | $X^2$ | xy |
|---|---|---|---|---|
| 2002/03 | 599.06 | -2 | 4 | -1198.12 |
| 2003/04 | 1207.28 | -1 | 1 | -1207.28 |
| 2004/05 | 1907.52 | 0 | 0 | 0.00 |
| 2005/06 | 3758.98 | 1 | 1 | 3758.95 |
| 2006/07 | 2659.45 | 2 | 4 | 5318.90 |
| **N=5** | **10132.29** | **0** | **10** | **6672.48** |

$$a = \frac{\phi y}{N} = \frac{10132.29}{5} = 2026.46$$

$$b = \frac{\phi xy}{\phi x2} = \frac{6672.48}{10} = 667.25$$

The Equation of the Straight Line Trend is ;

$$Y_c = a + bx$$

$$Y_c = 2026.46 + 667.25x$$

| Year | x = (t – 2003) | Trend Value $Y_c$ =2026.46 + 667.25x |
|---|---|---|
| 2002/03 | -2 | 691.96 |
| 2003/04 | -1 | 1359.21 |
| 2004/05 | 0 | 2026.46 |
| 2005/06 | 1 | 2069.71 |
| 2006/07 | 2 | 3360.96 |
| 2007/08 | 3 | 4028.21 |
| 2008/09 | 4 | 4695.46 |
| 2009/10 | 5 | 5362.71 |
| 2010/11 | 6 | 6029.96 |
| 2011/12 | 7 | 6697.21 |

ix. Trend Value Of Net Profit of NSBI

**( Rs. In Million)**

| Fiscal Year(t) | Net Profit (y) | X=(t-2005) | $X^2$ | xy |
|---|---|---|---|---|
| 2002/03 | 40.84 | -2 | 4 | -81.68 |
| 2003/04 | 48.75 | -1 | 1 | -48.75 |
| 2004/05 | 60.85 | 0 | 0 | 0.00 |
| 2005/06 | 117 | 1 | 1 | 117.00 |
| 2006/07 | 254.91 | 2 | 4 | 509.82 |
| **N=5** | **522.35** | **0** | **10** | **496.39** |

$$a = | \frac{\phi y}{N} = \frac{522.35}{5} = 104.47$$

$$b = \frac{\phi xy}{\phi x2} \frac{496.39}{10} = 49.64$$

The Equation of the Straight Line Trend is ;

$$Y_c = a + bx$$

$$Y_c = 104.47 + 49.64x$$

| Year | x = (t – 2003) | Trend Value $Y_c$ =104.47 + 49.64x |
|---|---|---|
| 2002/03 | -2 | 5.19 |
| 2003/04 | -1 | 54.83 |
| 2004/05 | 0 | 104.47 |
| 2005/06 | 1 | 154.11 |
| 2006/07 | 2 | 203.75 |
| 2007/08 | 3 | 253.39 |
| 2008/09 | 4 | 303.03 |
| 2009/10 | 5 | 352.67 |
| 2010/11 | 6 | 402.31 |
| 2011/12 | 7 | 451.95 |