

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

It has been known since a long time that banking sector is the lifeline of a nation and its people. Commercial banks are an integral part of the economy in all the countries. In addition to the commercial banking realm, there are several financial institutions affecting the financial operations in a country. The role of the commercial banks in financial system is more significant. It plays increasingly dynamic, and vital role in the economy of the least developed countries, which provides economic and financial intermediation in the economy. Prior to the establishment of the Nepal Bank Limited, there was no organized financial institution in Nepal. During the prime ministership of Ranodip Singh, around 1877 A.D, a number of economic and financial reforms were introduced.

The establishment of the Teejarath Adda was the outcome of that reform. In the overall development of the banking system in Nepal the Teejarath Adda may be regarded as the father of modern banking institution and for quite a long time it tended a good service to government servants as well as to the general public. However, the installation of “Kausi Tosha Khana” as a banking agency during the regime of King Prithivi Narayan Shah could also lay claim to be regarded as the first step towards initiating banking development in Nepal. The establishment of Nepal Bank Ltd (NBL) in 1937 A.D (1994 B.S.) was a landmark in the field of banking and financial sector in Nepal. It was established under special Banking Act, 1936 having elementary function of with an authorized capital of 10 million as a semi government organization. Then the government felt the requirement of central bank and established “Nepal Rastra Bank” in 1956 A.D (2013 B.S) as a central bank under NRB Act 2012 B.S. It played leading role in development of banking in Nepal and controlled the monetary system in country. Industrial Development Centre (IDC) was set up in 2013 B.S. for industrial development. In 2016 B.S., IDC was converted to Nepal Industrial Development Corporation (NIDC). NRB suggested establishment of another bank and in 1966 A.D (2022 B.S.) “Rastriya Banijya Bank”

was established as a fully government owned bank . Its branches are extended all over the country.

Similarly, Agricultural Development Bank (ADB) was established in 2024 B.S. to provide finance to the agricultural sectors so that agricultural productivity could be enhanced by introducing modern agricultural techniques. During the 1970s, the economic development came to be redefined in terms of reducing the rate of poverty and unemployment. The oil price hike of 1973 forced even developed countries to flash back into their economic structure. Moreover, Security Exchange Centre was established in 1976 A.D to enhance capital market activities. In order to boost up the economy of any country both public and private firm must play a vital role. The concept of public enterprise first emerged in the USA during Roosevelt regime. Although other countries also followed this concept, public enterprise could not function smoothly while arriving in 80s decades. Their productivity declined and ultimately, resulted in heavy loss. The wave of privatization slowly spread all over the world. The end of 1980s and beginning of 1990s are characterized by the political change. Germany unified, USSR split up and changed its socialist pattern of economy. Centralized economy of China slightly directed towards liberalization. In addition, revolution in information technology, worldwide wave of privatization and liberalization in 1990s led to globalization. The process of the Development of Banking system in Nepal was not satisfactory up to 2040(B.S) Nepal was observing the event that was taking places in the world also. Nepal was deeply studying and searching what sorts of programs, policies, law and regulation should be brought into the practice. The country can not change its status by using only its own capital in the country without importing the new technology from foreign country Accordingly, law and policy have been enacted by the state to encourage the foreign investment on banking sector. Competition began to grow between the s. The Banks began to offer their valuable service to the people through new technology. This was a great significant event.

There are so many banks in operation in Nepal with their main objectives of carrying out activities under the Banking and Financial Institution related Act 2060 (B.S), the Nepal Rastra Bank Act 2058(B.S), the company Act 2053 (B.S) and Contract Act 2056.

After the restoration of democracy in Nepal, there is tremendous development in banking sectors. Different types of banking activities are being operated. It has played positive role in the economy activities. Till now, apart from commercial banks, many Rural Development Banks are also in operation in Nepal. During 1970 A.D., the economic development came to be redefined in terms of reducing the rate of poverty and unemployment. In order to boost up the economy of any country both the public and private firm must play a vital role. The concept of public enterprises first emerged in the USA during Roosevelt regime. Although other countries also followed this concept, public enterprises could not function smoothly while arriving in 80s decades. Their productivity declined and ultimately, resulted in heavy loss. The oil price hike of 1973 forced even developed countries to flash back into their economic structure. The wave of privatization slowly spread all over the world. The end of 1980s and beginning of 1990s are characterized by the political change. Germany unified, USSR split up and changed its socialist pattern of economy. Centralized economy of China slightly directed towards liberalization. In addition, revolution in information technology, worldwide wave of privatization and liberalization in 1990s led to globalization.

The economic alliance and powerful blocks have changed the international trading system. About 200 countries of the world at present have divided into more than 170s alliance in the form of economic grouping and trade block such as EU, ASEAN, SAARC etc. Gradually ascending economy in East Asia again encountered crisis in 1997, which affected the entire world. Economy in the most of the developing countries growth remained weak and below pre-crisis trend. However, the negative impacts of crisis did not last long and now, by the beginning of new millennium, those economic affected nation have also regained their reforming pattern.

The main objectives of these banks is to uplift the living standard of the people by providing them the necessary training and banking services and providing loan without securities in group basis as well as personal basis for income generating business. These Banks are established according to the Rural Banks Financial System as pursued by the Government of Bangladesh with the objectives of providing loan to the poor people, who are deprived of the institutional loan

facilities due to the lack of reasonable security and guarantee. The Rural Development Banks have their own fundamental concepts that every man has his own characteristics and skills. It can bring the poor class of people in the level of respectable living standard providing the opportunity to the talented people and oppressed to increase the income and create the productive poverties.

1.1.1 Commercial Banking Activities

In the past, bank used to just accept deposits form the savers of money (surplus units of the society) and provide loans to the users of money (deficit units of the society). Savers of money are those units whose earning exceeds expenditure on real assets (land, building, cloth, food etc.) and users of money are those units whose expenditure on real assets exceeds their earnings. In such a situation, deficit units sell their securities IOUs (I OWE YOU) to surplus units. These securities are financial assets. If entire income of a unit matches with investment on real assets, no financial assets are created.

The evolution of Banking can be traced back to the era when the use of metallic coins as the media of exchange of goods and services began. Storage of metallic coins was a serious problem for the common people. Because of the danger of theft and robbery, people started leaving gold, silver, and metallic coins in the custody of some reputed person i.e. wealthy merchant or a money changer. The custodian had a strong box and other means of safe keeping. He offered this service as a favor for his friends or made a charge for it. The depositor had to go personally to custodian for the withdrawal of his money. But this practice was found to be inconvenient. How did the use of word Bancus become popular? The origin of “Bank” is traced from a Latin work “Bancus” which means a bench. European money-lender and money-changers used to transact their business at benches or tables. They followed the practice of receiving gold and other metals as deposits and issuing receipts. The bench or table used by the trader in money was the symbol of the business of banking or dealing in money. The success or failure in trading was associated with his bench. When a banker failed, his bench used to be destroyed by the people.

The history of the growth of banking in Nepal is not so long in comparison to other developing or developed countries. Like in other countries, goldsmiths, merchants and moneylender were the ancient Bankers of Nepal. Nepal Bank Limited the first bank had a Herculean task of attracting people toward banking sector from pre-dominant

moneylenders and of expanding banking services. It was natural that NBL, paid more attention to profit generating business and preferred opening branches at urban centres. Government, however, had onus of stretching banking services to the nook and corner of the country and managing financial system in a proper way.

The major challenge before Nepal Rastra Bank today is to ensure the robust health of financial institution. Accordingly, NRB has been trying to change them and has introduced a host of prudential measures to safeguard the interest to the public. It is said that NRB is yet to do a lot to prove itself as an efficient supervisor. NRB really requires strengthening their policymaking, supervision and inspection mechanism. Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corners of the country.

1.2 Brief Profile of Sample Companies

1.2.1 Nepal SBI Bank Limited

Nepal SBI Bank was established in 2050 B.S. It started its operation on 23rd Ashad 2050. It is an associate of State Bank of India and Nepalese entrepreneurs.

Regarding the composition of equity capital, State Bank of India, general public, employee's provident fund and Agricultural Development Bank share: 50%, 30%, 15% and 5% respectively. Under the technical service agreement signed between two banks, State Bank of India has been providing top management service to the bank service. The bank operates with the objective of providing loan to industry, commerce and trade. It also wishes to have public benefited from the various services.

The bank has 19 branches in various parts of the kingdom. Its corporate office is located in Hattisar, Kathmandu and main branch office in Durbarmarg, Kathmandu. It has three other branches within the valley-New Road Branch and Embass of India Extension Counter(2009/10) and Teku Branch. Fifteen branches outside the valley are in Birgunj, Biratnager,Bairahawa, Rampur, Birtamod, Sisuwa, Pokhara and Dharan Janakpur, Narayangrad, Pokhara, Butwa, Nepalgunj etc. And purpose branch are Patan, Syangja and Baglung.

The bank has utilized advanced computerized technique in its operation. The software in the user is 'bancs-2000' developed by infosis technology, India. The branches within the valley perform their routine works from Monday to Friday i.e. Five days a week.

Apart from the conventional facilities, other facilities made available by the bank are listed below.

- It provides loan and advances by means of term loan as well as working capital.
- It provides its customers with letter of credit and guarantees.
- It provides remittance facility to various parts of the world.
- It is going to introduce 'Swift Transfer' System in near future.
- It provides merchant banking facilities like underwriting of public issues and standing instructions.

Performance review of the bank depicts that the total deposits of the bank grew from 3,744.50 million rupees in the fiscal year 2003/04 to 4380 million rupees in 2007/08, recording a moderate growth of 16.97%. During the same period, total loans and advance reached the level of 2,963 million rupees from 2,363 million rupees recording a growth of 25.36% over the previous year. Accordingly, total negative growth of 70.28% the level of investment in government securities. Net profit, during the period declined to 16.70 million rupees from 58.90 million rupees showing the negative growth of 71.58%.

1.2.2 Everest Bank Ltd.

Everest Bank Limited (EBL) was established in 1994 and started its operations with a view and objective of extending professional ideas and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Sector Bank of India having more than 100 years of banking history with more than 4400 offices all over India and is known for its strong systems and procedures and a distinct work culture.

Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations ever since its inception and today it has established itself

as a leading Private Sector Bank of the nation, reckoned as one of the fastest growing of the country.

The bank's paid-up capital has increased to 455 million against the Authorized Capital of 750 million whereas the Core Capital of the bank is around 700 million. The local Nepalese promoters hold 50% stake in the bank's equity, while 20 % of equity is contributed by joint venture partner PNB and remaining 30% is held by the general public.

The bank provides a wide range of banking facilities through a wide network of 29 branches covering all the five regions of the country and over more than 250 reputed correspondent banks across the globe. All the branches in the valley and as also those at important business centers like Biratnagar, Birgunj, Butwal and Bhairahawa are interconnected through Anywhere Branch Banking Systems (ABBS), a facility which enables its customers to do banking transactions from any of these branches irrespective of their having accounts in the other branch.

Being a pioneer in opening a representative office in New Delhi, India, EBL has successfully taken another historical step in the banking history of the country. Our representative office facilitates the remittance of Nepalese workers residing in India by opening their accounts from the identified branches of our joint venture partner, Punjab National Bank, India and also attracts Indian Investment to Nepal.

EBL is playing a pivotal role in arranging remittance of funds to and from India through instant transfer facility in addition to the Drafts Drawing Arrangement with 170 branches of PNB all over India. The bank is also offering Cash Management System for managing the funds of corporate exporting to India by collecting their funds from about 183 locations in India. EBL, in order to help Nepalese Citizens working abroad, has entered into arrangements with banks and finance companies in different countries which enables quick remittance of funds by the Nepalese Citizens in countries like UAE, Kuwait, Baharain, Qatar, Saudi Arabia, Malaysia, Singapore and UK.

1.2.3 Standard Chartered Bank Nepal Ltd.

Standard Chartered Bank Nepal Limited (SCBNL) has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the bank is an integral part of Standard Chartered Group that has 75% ownership in the company with 25% shares owned by the Nepalese public. The bank enjoys the status of largest international bank currently operating in Nepal.

Standard Chartered Group employs 30,000 people in over 500 locations in more than 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. It is one of the world most international banks, with a management team comprising of 79 nationalities. The Bank is trusted across its network for its standard of governance and its commitment to making a difference in the communities in which it operates.

An integral part of the only international banking group currently operating in Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country. It has 17 branches and 21 ATMs across the Kingdom and with over 500 local staff, Standard Chartered Bank Nepal Ltd. (2009/10) is in a position to service its customers through a large domestic network. In addition to which the global network of Standard Chartered Group gives the Bank the unique opportunity to provide truly international banking in Nepal.

1.3 Statement of the Problem

The number of joint venture banks are increasing in response to the economic liberalization policies of the government. Besides joint venture banks are also being registered by Nepalese promoters other institutions offering similar nature of services like development banks, finance companies and co-operative societies. are growing in. These institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders and entrepreneurs.

Entry of new banks in financial system along with increase in the business, the total assets i.e. sources of fund of commercial banks went up by higher rate of 43.30 percent compared to 15.51 percent in the previous year. By the end of fiscal year 2008/09, the total assets of commercial banking sector reached to Rs. 812165.9 million from Rs. 566736.0 million in the last year.

The share of loans and advances to total assets decreased to 49.02 percent in Mid-July 2009 from 53.45 percent in Mid-July 2008. Similarly, investment and liquid funds registered 16.11 percent and 13.05 percent respectively. In the preceding year, the respective shares were 19.23 percent and 11.80 percent.

The outstanding of deprived sector credit of commercial banks in the Mid-July 2009 increased by higher rate of 76.36 percent compared to 12.51 percent in the Mid-July 2008. By the end of Mid-July 2009, it reached to Rs. 13565.1 million from Rs. 7691.40 million from Mid-July 2008. The ratio of deprived sector credit to total outstanding of product wise loans and advances stood at 2.96 percent in the current fiscal period. Last year it was 2.82 percent.

This sub-sector is estimated to achieve the growth rate of 4.8 percent in the current fiscal year as compared to lower growth rate of 1.7 percent in the previous year. Even though the productive sector could not be expanded, it is estimated that expansion in housing construction has made positive impact in the real estate and commercial services. This sub-sector has achieved an average growth rate of 7.0 percent for the last five years and contributed to average of 9.2 percent to the GDP.

The problem of the study lies on the issues related to the Nepal SBI Bank, Everest Bank and SCBNL on following questions.

- How far have Nepal SBI Bank, Everest Bank and Standard Chartered Bank Nepal Limited been able to shift the monetary resources from savers to users?
- What is the deposit and investment conditions of three JVB?
- How sound is the operational result in relation to their profitability?
- What is the comparative position of three banks in terms of liquidity, loan and investment in profit?

1.4 Objective of the Study

The main objective of this study is to evaluate the situation of deposit and investment pattern of the commercial banks with reference to Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. The specific objectives of the study are as follows:

-) To analyze the relationship between deposits, loan and advances, investment, net profit and compare between the banks under study.
-) To analyze impact of loan and investment in profit under study period.
-) To suggest and recommended some measures for fund mobilization and investment policy.

1.5 Significance of the Study

The study is important to know how the banks are utilizing their deposits. The position of the banks under study about loan and advances, investment, deposits and net profit can be determined, which makes clear about their performance and helps in making any kind of decisions regarding these banks. Similarly, the aim of the study is to identify the deposit and investment pattern. It provides a useful feedback, remedial actions, good planning and takes appropriate decision to the policy makers of the selected banks, governments and the other concerned. Likewise, the research provides required information to the persons such as general readers, decision makers, brokers, traders, stock holders, financial agencies, businessmen and general public and is also useful for teacher and students of the particular subjects and the firms and others those having interest on financial management.

1.6. Limitations of the Study

The study being the partial fulfillment of the masters degree in business studies has following limitations:

-) Lack of the sufficient time and resources are the major limitations of the study.
-) The study covers the analysis of 5 years data only.
-) The whole study is based on the secondary data collected from central branch, Nepal SBI Bank Ltd., Everest Bank Ltd. and Standard Chartered Bank Nepal Ltd. Therefore, the limitation of data derived from financial statement exists. It focuses only on the deposit, loans and advances, net profit and investment position and does not cover other aspects of activities.
-) This study is limited to the study of only three Joint Venture Banks. It does not cover entire banking industry.

-) Basically, ratio analysis is used to evaluate the deposit and investment of sample banks. Therefore the limitations of ratio analysis exists i.e. the qualitative aspect of management is not evaluated.
-) This study does not examine the factor affecting the deposit and investment in other banks.

1.7 Organization of the Study

This study has been divided into five chapters which are as follows:

Chapter I: Introduction

Chapter II: Review of the literature

Chapter III: Research methodology

Chapter IV: Data presentations and analysis

Chapter V: Summary, conclusion and recommendation

First chapter i.e., introduction deals and includes the background of the study, brief profile of the sample companies, statement of the problem, objectives of the study, significance of the study, limitations of the study, and organizations of the study.

Second chapter deals with the review of available literature. It focuses on review of the related books, journals, articles and previous unpublished Masters Degree thesis etc.

Third chapter explains the research methodology used in the study. It includes research design, population and sampling, source of data, method of data analysis and research variables etc.

Fourth chapter, the most important chapter of the study, is the presentation and analysis of data as well as the major findings of the study.

The fifth and the last chapter covers the summary of the study, the main conclusions that flows from the study and some recommendations as well as suggestions for further improvement.

CHAPTER- II

REVIEW OF LITERATURE

This chapter is related to review of literature concern with the study. Review of literature begins with the conceptualizations of persisting theories and search of research studies in this topic. It deals with the existing volumes situations of selected or similar topics. It eliminates the duplication of the topics. This chapter consists of parts. The first part deals with the conceptual framework while the second part deals with the review of previous study.

2.1 Conceptual Framework

There is an important role of banks in the economic growth and development of a country. To achieve an ideal economic growth and development of the country, banks should have strong and well-managed organization of banking system. When banking is appropriately organized, it aids and facilitates the growth of trade and industry and hence of national economy. Banks are such type of institutions, which deal in money and substitute of money. They deal with credit and credit instruments. The most important thing for the bank is good circulation of credit. Fluctuate flow of credit and decisions harm the whole economy and the bank as well. Thus to collect fund effectively and its well utilization is the very challenging task for the bank. The decision for an investment of fund may be the question of life and death of the bank.

In modern economy, banks are considered not as dealer of money but as the leaders of development. Banks are not only the warehouse of the country's wealth but are also the reservoirs of the resources necessary for the economic growth of the country. Investment is the employment of funds with the aim of achieving addition income or growth in value. It involves the commitment of resources that have been saved or put away from current consumption in the hope that same benefits will accrue in future. Investment involves long-term commitment and waiting for a reward. The sacrifice takes place in the present and is certain while the rewards come later and uncertain.

2.1.1 Overview of the Present Economy

In FY 2003/04, both broad money (M_2) and narrow money (M_1) increased at higher rates compared to their respective growth rate in the preceding year. M_2 went up by 12.8%

whereas M_1 grew by 12.2%. Among the expansionary factors of money supply, net foreign assets (after adjusting foreign exchange valuation gain/loss) rose by 17.5% and domestic credit went up by 9.9% whereas net claims on government witnessed a decline of 0.8%. Of the contractionary factors of money supply, time deposits accelerated by 13.1% whereas net non-monetary liabilities (after adjusting foreign exchange revaluation gain/loss) increased by 9.8%. Total assets/liabilities of banks expanded by 5.9%.

Other banking institutions exhibited improved performance in terms of loan repayments. Total assets and liabilities of finance companies increased. Market capitalization, annual turnover and paid up capital of listed companies in the stock market moved up markedly. The closing index of NEPSE surged by 17.18 basis points to 222.04 as at mid-July 2004 compared to that of a year ago.

2.1.1.1 Legal

The efficient function of the banking system requires an efficient legal and judicial framework. Banking efficiency requires comprehensive, understandable and well-designed law from a functional perspective. Nepalese laws have mixed origins, some stemming from early western influence in the subcontinent and others adopted in the modern era, before or after the establishment of democracy. Many of the laws and institutions relating to financial institution in Nepal are modeled on the laws and institutions decreed by the British East India Company. The British brought their Victorian bureaucratic structures and invented new institutions, as they needed them, making them all answerable to a distant judicial system. The chief emphases were on adequately supporting international commercial relations, ensuring the value of the currency, and spurring collection of tax revenue.

There is no any difference between Nepalese and joint venture foreign banks with regard to the establishment and operation. Both type of Banks are regarded as Nepalese Banking Company in the eye of law and can find no special treatment of law between them. Different laws and different bodies are there to guide and regulate them. The general laws applies over all banking companies including Banking and Financial Institution related Act, 2060 (B.S), company Act, 1997, Foreign Exchange (Regulation) Act, 1962, Income Tax Act 2002, Loan Recovery Act 2002, Security Exchange Act, 1983, Nepal Central Bank Act 2002 etc. is generally registered under the company Act but operated under the Bank and Financial Institution related Act because it has no

provision for the registration of the bank. The bank can start banking service as per the Banking and Financial institution Act only after the approval of Nepal Rastra Bank. Foreign banks can establish their branch and establish new local banks under joint venture with the Nepalese investors from both public and private sectors. The Act does not mention separate provision for Nepali s and joint venture banks. Some legal provision which is must essential in regard of JVB is not stipulated in the Act such as terms and condition between Nepalese and foreign investment, ratio of shares, forms of investment. Act does not mention separate provision for Nepal s and joint venture banks. Some legal provision which is must essential in regard of JVB is not stipulated in the Act such as forms of cash or assets, in which currency foreigner can invest, how much amount gained from profit, bonus and amount by selling shares they can transfer in foreign currency etc. It does not provide clear policy and guidelines for the appropriate structure, ownership and share holding for the promoters and the general public. Other relevant provision depends upon the decision of central Bank. Decision of central bank may be different for different banks. In the realm of economic liberalization this types of provision does not appropriate to strength the banking system.

2.1.2 Factors Affecting the Banks Business

1. The directives issued by Nepal Rastra Bank particularly with regard to recognition of interest income, loan loss provisioning and single borrower and group exposure limits are binding guidelines for banks and hence are bound to have impact on the income of the banks in the short run.
2. Funds management has become a challenge for the banks with increasing lack of opportunities for profitable investments.
3. Persistent slackness in economic activities has adversely affected the recovery of investment. Incomes of the banks have been affected by this.
4. Crisis of confidence witnessed in the business community because of the prevailing environment may limit additional lending opportunities to a greater extent.

2.1.3 Functions of commercial banks

Banking industry offers a wide range of services encompassing the needs of public of different lifestyles. Hence, different types of banks emerged in the banking industry

concentrating on a special sector. This is the age of specialization. Based on functions, banks can be classified as under. The functions of commercial banks are directly related with the people and institution. These are important banks. Its functions are very attractive for people. Although three banks are truly inspired with the objectives of earning profit, three s are also established, to accelerated common people's economic welfare and facility, to make available loan to the agriculture, industry and commerce and to provide the banking services to the public and the state in Nepal, the commercial banks perform the following functions:

Accept Deposit

Among many functions of the acceptance of deposit is one of them. The banks accepts deposits under three types of account. They are Fixed Deposit, Saving Deposit and Current Deposit Accounts. People can deposit their earned money in one of the above-mentioned three accounts. However, the interest is paid only on saving and fixed deposit accounts. No interest is paid to the Current Deposit Accounts. The customers can withdraw their money from their account according to their need. The s perform the important function of accepting all sorts of deposit. It earns profits by investing that money in another place.

Provide Loan

Another function of the is to provide loan. A bank provides loan to the deserving persons, companies and institutions. A bank is capable to gain benefits in its banking developments by receiving the interest as per law and internal policies. It provides loans in different terms and conditions provides loan by accepting collateral securities of debtors. A bank can flow the loan against a third person guarantee or with the pledge of the third persons property. A bank provides loan on the basic of agreement or deed of loans.

Agency Functions

The used to provide agency function in following ways:

-) A bank makes payment after taking commission for the cheques, draft, and bill of exchange presented by the customers.
-) A bank, on the request of its customers, transfers the money from one place to another place by Demand Drafts, Fax Transfers or Telegraphic Transfers.

-)] A bank, on the request of its customers, buys and sells a company's shares and governmental security bonds.
-)] A bank collects the interest on governmental bond and the profit on share from the company for its customers.
-)] A bank also pays rent of the house, and income tax etc on behalf of its customers.

General Utility Functions

A discharge the function of general utility also. These functions are as follows:

-)] If the Central Bank has given the permission to carryout the transaction of foreign currencies, the exchanges the foreign currency earned by his customers.
-)] Banks issue travellers cheques in the customers name and communicate the credit information or notices for his customers.
-)] Banks provide lockers to its customers for keeping valuable metals, ornaments, and documents safely. The customer keeps one of the keys of lockers with him and the bank is keeping the other. If the customers valuable goods are kept under the banks custody such safe boxes are called safe deposits valve.
-)] Banks give economic and professional advice to its customers.
-)] Banks collect important Commercial information and data for his customers.
-)] Overseas Trading Services

Another function of overseas is trading services for its customer's recognition of overseas trade has led moderns to act specialization in the finance of the foreign trade and some banks in some countries have taken interest in export house and factoring organizations. Assisted by banks affiliated to them in overseas territories, they are able to provide a compressive network of services for foreign banking business, and many transactions can be carried out from start to finish by a home bank or its subsidiary. In the places where banks do not directly represent, by such affiliated undertakes, they have working arrangement with correspondents, so that the banks are in a position to under take foreign banking business in any part of the world. The banks provide more than just a means for the settlement of debt between trades both at home and abroad.

Information And Other Services

The provides some information and other services to its customers, which is very useful. Some banks produce regular bulletin on trade and economic conditions at home and abroad. In this way, it is possible to establish new avenues of business purpose, confidential opinions on the financial standing of companies, firms, industries at home and overseas. Hence, these types of function of the s are really laudable.

2.1.3.1 Lending process

Follows several steps to disburse loan to the borrowers. The lending policies might be different form one bank to another. In general, these steps can be pointed out of follows.

The needy are required to submit an application to the bank along with required documents. The documents required for credit proposal appraisal and processing by banks are as follows:

- Loan application
- Citizenship certificate of applicant
- Firm/ company registration certificate (if self employed)
- Income tax registration certificate (if self employed)
- Authenticated partnership deed in case of partnership firm and memorandum and article of association in case of company
- Attested copy of board resolution in case of company resolved to avail loan and banking facilities form bank against the pledge, hypothecation, and mortgage of fixed property owned by company or property of third party named.
- Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company.
- Feasibility report/scheme (for new project)

Lending appraisal and processing

Basically, appraisal of loan proposal is processing for the analysis of the variability of the scheme proposed. It also helps to assets the actual financial assistance needed to operate the scheme. Carries out loan appraisal on the basis of past performance, future forecast and information available form the documents submitted by aspirant borrowers.

The bank tries to ascertain the following during loan processing:

The cost of estimate us examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specification of machinery should be proper.

-) Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.
-) The return rates should be adequate like return on investment (ROI), internal rate of return (IRR) and debt service coverage ratio (DSCR).
-) The capacity, competency, integrity and commitment of promoters/partners/proprietors/directors/personnel should be intact.
-) SWOT (strength, weakness, opportunity and threat) analysis of the proposed project must give reasonable assurance.

2.2 Review of Books

Banks are such type of institutions that deal in money. They deal with credit and credit instruments. The most important thing for the bank is good circulation of credit. Fluctuation of credit and decisions harm the whole economy and the bank as well. Thus, To collect fund effectively and its well utilization is the very challenging task for the bank. The decision for an investment of fund may be the question of life and death of the bank.

Investment is the employment of funds with the aim of achieving addition income or growth in value. It involves the commitment of resources that have been saved or put away from current consumption in the hope that some benefits will accrue in future. Investment involves long-term commitment and waiting for a reward. The sacrifice takes place in the present and is certain, while the rewards come later and uncertain.

In the words of Gitman and Joehnk (1990) "Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns"

Frank and Reilly (2001), defines "An Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time. Funds are committed, for the expected rate of inflation and also for the uncertainty in the future flow of the fund."

V.K. Bhalla and S.K. Tutesa(1998), defines, "There are basically three concepts of investment:

Economist's definition of investment.

- Investment in a more general or extended sense, which is used by "The man on the street", and
- The sense in which we are going to be very much interested namely financial investment."

Jerome B. Chone Edward, D Zinbarg and Arthar Zeiped, define the word investment as "Investment has many factors. It may involve putting money into bond, treasury bills, or notes or common stocks or painting of real estates, or mortgages or oil ventures, or selling short in bear markets. It may involve options, straddles, tights, warrants, convertibles, margin, gold-silver, mutual funds, money market funds, index funds and results in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the able or lucky, the reward may be substantial. For the uninformed the results may be disastrous."

Frank K. Reilly (2001), defines investment in this words, "An investment may be defined the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time. The funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of funds."

From the above definition, it is clear that an investment means to trade a rupee amount today for some expected future stream of payment of benefits that will exceed the current outlay by an amount that will compensate the investor for the time. The funds are committed for the expected changes in prices during the period and for the uncertainty involved in expected future cash flows. Thus, investment is the most important function of s. It is the long-term commitment of the bank in the uncertain and risky environment. It is very challenging task for s. Therefore, a bank has to be very cautious while investing their funds in various sections. The success of the bank depends heavily upon the proper management of its invisible funds.

H.D. Crosse says in this regard, "Lending is the essence of banking, consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well-conceived lending policies and careful lending practices are essential if a bank is to perform its credit function effectively and minimize the risk inherent in any extension of credit."

James C Van Horne (1998), expresses his view as, "Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets.

From the above definition, it is clear that the words the investment (Credit) policies of banks are conditioned, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course, his banker's credit policy also in mind. Investing covers a wide range of activities and refers to investing money either in securities or mutual funds. More knowledge investors would include other financial assets such as warrants, puts and calls, convertibles securities etc. Investing encompasses very conservative positions and aggressive speculation."

In William F. Sharpe, (2001) saying, "Investment is sacrifice of current dollars for future dollars and time and risk are involved in investment." According to him, sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain. In some cases the element of time pre dominates. In other cases, risk is the dominant attribute etc.

According to I.M. Pandey (1995), "Investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, the investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder's fund maximization. An Investment will add to all the shareholder's wealth if it yields benefit in excess of the minimum benefit as per the opportunity cost of capital." The decision of investment is very important because it influences the firm's growth in the long run affects. The risk of the firm requires the large amount of funds, which is difficult to make.

A must invest its deposits and other funds to secured, profitable, reliable and marketable sectors, so that it can earn a reasonable profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiency ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

According to Mr. Shakespeare Baidhya(on sound investment policy, "A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amount of loan that have become un-collectable due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the banks investment policy must be such that it ensures that it is sound and prudent in order to protect public funds.

The word 'Investment' as, Investment is the use of money to earn income or profit. The term also refers to the expenditures of funds for capital goods such as factories, firm, equipment, livestock, and machinery. Capital goods are used to produce other goods or services. Many people invest part of their income for financial gain. Others make investment to protect the purchasing power of their saving against raising prices. Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank, for example, the bank may invest by lending the funds to various business companies. These firms in turn may invest the money in new factories and equipments to increase their production. In addition to borrowing from banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bond to obtain funds to invest in such projects as the construction of dams, roads, schools etc. All such investments involve a present sacrifice of income to get an expected future benefit. As a result, investments raise a nation's standard of living.

"The term economic investment has a rather precise meaning in the literature of economic theory. Typically, it includes net addition to the capital stock of society. By capital stock of society means those goods, which are used in the production of other goods. He says it is goods; societal or aggregate point view. The definition implies that in society there are number of goods which are used to produce other goods and that these means have production that are considered part of the capital stock of society. For a number of reasons, economists also include inventories as part of the capital stock. Thus, a net additions to the capital stock-an investment means an increase in building, equipment, or inventories over the amount of equivalent goods that existed, say, one year ago at the same time".

Further explains that the everyday usage of the terms investment can mean a variety of things, but to the man of the street usually refers to money committed of same sort. He gives an example as, a commitment of buying a new car among a number of new cars is certainly an 'investment'. From an individual's point of view these are in very general and very extended senses of the word since no rate of return is involved nor is a financial return or capital growth expected.

Financial investment is a form of this general or extended sense of the term. It means an exchange financial claims-stocks and bonds, real estate, mortgage etc. The term financial investment is often used by investors to differentiate between the spud-investment concept of the consumer and the real investment of the businessman. He differentiates an investment between the ticketing and the constructing a new plant, the pawning of watch and the planting a corn.

V.K. Vhalla (1998), goes ahead mixing the investment with speculation gambling. In addition, he shows the difference between speculations and gambling as; in gambling artificial and unnecessary risk are created whereas in speculation, the risks already existed and the question is simple who shall bear them.

Investment usually involves putting money into an asset, which is not necessarily marketable in order to enjoy a series of return the investment that is expected to yield. On the other hand, speculation is usually a short-run phenomenon. Speculators tend to buy assets with the expectation of a profit that can be earned from a subsequent price change and sale. Investments are usually made expecting a certain stream of income, which has

existed, will not change in the future. Speculators, on the other hand, are usually based on the expectation that some change will occur.

2.3 Review of International Literature

Barbara and Sotiris (2001), They focus on an empirical investigation of service failures and service recovery in retail banking. Different types of failures and recovery strategies used by Greek banks to them were identified using the critical incident technique.

The importance and benefits of providing service quality are well documented in the academic literature, and business participations strive to design and implements programs to ensure that the customer is satisfied with his/her encounters with a service firm and, in turn, with various dimensions of service quality. However, quality discrepancies and shortfalls are likely to occur, especially when human input is largely responsible for the “Production” and delivery of the offering. The problem that arises for organizations are what happens when a service shortfall occurs; how can they recover from service failure?

Lin Peter Wei-Shong, Mei Albert Kuo-Chung (2006) define the lending function is considered by the banking industry as the most important function for the utilization of funds. Since, banks earn their highest gross profits from loans; the administration of loan portfolios seriously affects the profitability of banks. Indeed, the large number of non-performing loans is the main cause of bank failure. Banks are learning to review their risk portfolios using the criteria laid down by Basel II. Greenspan has indicated that Basel’s goal is to induce bankers to improve their risk management capability, including how the institutions price products, reserve for loss, and control their operations (Rehm, 2002). This research is in line with the purpose of Basel II, i.e. to reduce a bank’s operational risk during the lending process through a better monitoring of the employees in the lending department.

According to them, with respect to performance, banks now use various measures to assess bank efficiency and related functions in the bank lending process. Traditionally, banks determined operating efficiency by using measures of bank profitability, such as return on equity, return on assets, and return on investment; also, banks used operational

ratios, such as monetary output per staff member, and total operating expenses per unit of output.

Banks adopted data envelopment analysis (DEA) in the 1990s as the principal method for assessing bank efficiency. DEA is a linear-programming method initially developed by Charnes et al. (1978) to measure the comparative performance of homogeneous organizations. The objective of DEA was to build an efficiency frontier of inputs and outputs, where production is maximized under fixed costs or costs are minimized under restricted production.

Using final measures as the primary tools to evaluate lending performance, however, may result in the following problems:

-) Final measures used to evaluate final outputs of the lending process cannot predict in advance whether a lending operation may become a problem loan. That is, the final measures cannot reduce the operational risk of lending in advance.
-) In general, the period of lending will be long term – a minimum of three or five years. Performance measures of the lending should concentrate on the quality rather than the quantity of the loan. Therefore, when using final measures as indicators of evaluating loan performance, quarterly or yearly measures are not incompatible with regular performance measures.
-) A borrower may pay in accordance with the bank's requirements for one period, but in the next period, he or she can violate or breach the agreement. The regular loan performance measure emphasizes cash flow in, but neglects the quality of each lending process, leading to a possibly biased performance measure.

To resolve the problems that can occur when using final measures as performance indicators, we should choose internal performance measures of bank lending activities as the main analytical core for our study for various reasons. First, the internal measures used can evaluate internal outputs of the lending process. Therefore, these measures can prevent problems loans from occurring in the future. Second, the internal measures can be compatible with a bank's regular performance quarterly or yearly measures. Third, the internal measures are based on quality not quantity, and a quality-based measure can prevent a possible bias in measuring banking loan performance.

This research indicates the importance of using internal measures to evaluate lending performance and resolve any problems derived from using final measures. The main purpose is to monitor and assess the lending performance accurately and reduce probability of overdue loans and bad loans.

Before constructing appropriate internal measures, this techniques utilizes the concept of a value-added approach to analyze the process of lending activities, which are as follows.

1. Analyzing process of lending activities
2. Finding outputs of process of lending activities
3. Finding internal measures of output of lending activities
4. Finding internal sub-measures to improve the correctness of Capacity and Condition
5. Improving performance of banking loan

Then we find proper outputs of each lending activity and construct internal measures of outputs for those lending activities. Among these internal measures, the analysis of a borrower's capacity and condition is the key factor to estimate the probability of the borrower's ability to repay the loan and interest in the future. To improve loan performance, this research builds on internal sub-measures to monitor employees in the lending department.

In this research, a value-added approach uses a competitive strategy and the concept of the value chain developed by Porter (1985). The research has a specific goal; that is, to determine the appropriate internal performance measure for each activity along the route of the lending process. This production process can be described as a value-added process. The total value added, across the profit production process, can be measured by using the differences between the values of all outputs and inputs. The value-added analysis carefully counts only the incremental profit an activity generates during the production process. The final measure then is referred to as the total value created from this profit production process. The internal measure in this research is referred to as the value created from a specific activity during the process.

In order to increase the added value of each lending activity, the lending process is analyzed to find the appropriate internal performance measure for each activity along the lending production process. Schuler and Jackson (1996) revealed three basic types of

performance measure criteria: trait-based, behavior-based, and outcome-based. The benefit represents the performance outcome of a lending-related employee, but not the trait, or the behavior. These internal measures are used to monitor and enhance the quality of each lending activity. Consequently, the characteristics of these internal measures become mainly outcome-based and quality-oriented.

Process and work analysis of bank lending activity

The first step of the C&I loan process is the application, which is conducted by a loan officer. This step covers the initial interview and screening of a loan request. Initially, the loan officer obtains as much information as possible about the situation of the borrower, for example, his or her previous credit history, current outstanding loans, and current financial statement. The loan officer gathers company information, including legal status, principal employees, main products or services sold, production techniques employed, important competitors, and directors of the company.

The second step is the credit analysis conducted by the credit department. First, the analyst in the credit department receives the financial information of the borrower gathered by the loan officer; then he or she conducts a comparative and historic analysis of the company's financial data. After finishing the financial comparative analysis, the analyst prepares a recommendation report for the loan officer about whether the loan should be granted, rejected or qualified.

In the third step, the loan officer obtains the credit analysis report and determines whether the report accurately describes the borrowing capacity and characteristics of the borrower. The loan officer then grants the loan with or without considerations of collateral. The loan officer notifies the borrower of his or her decision and proceeds to negotiate loan terms if the loan is to be granted.

When the loan officer and the borrowing company are in agreement, the fourth step is the loan operation. Here it is necessary to prepare primary notes, agreements, collateral or non-collateral agreements. If collateral is required, the amount of collateral and additional collateral documentation are indicated.

In the fifth step, the loan officer obtains the borrower's signatures and receives collateral; then the loan operation is closed and the loan proceeds.

The sixth step is the recording of the loan conducted by the loan operation and credit department staff. A loan operation clerk classifies and codes the loan for entry into the commercial loan system, and he or she reviews the loan for compliance with the bank's loan policies. Finally, the loan operation clerk and credit department staff member file the loan notes, authorization, and receipts in designated files.

The seventh step is loan servicing and administration conducted by a loan operation operator, a loan officer, a credit department staff member, and a financial analyst. The loan operation staff person prepares the loan payment notices to notify the borrower and is responsible for receiving periodic payments. The loan officer makes periodic visits and customer calls to obtain new financial statements from the borrower and provides that information to credit department and reviews the loan for compliance with the loan agreement. A credit department financial analyst also receives and reviews the borrower's periodic financial statements.

In the eighth step, the loan officer may receive periodic delinquency information and need to follow up on this with borrowers. The loan officer also needs to adjust loan terms and conditions as deemed necessary, and to take legal action if non-collectible procedures and foreclosure on the loan are required.

After analyzing these lending activities, a value chain of lending activities can be identified, and the rationale for determining how values are created can be determined.

Outputs of bank lending activities

It can be observed from the work analysis in the previous section that the particular process of lending covers eight important activities – application, credit analysis, decision, document preparation, closing, recording, servicing and administration and collection. This study employs the work analysis for activities at each stage of the lending process using with a value-added approach, to find the appropriate outputs.

Internal measures before lending decision

As analyzed above, internal measures are used to monitor and enhance the quality of each lending activity. Hence, the internal measures become the measures of the value or quality of outputs. The visiting report is the output after the activity of application. The purpose of the visiting report is to help the loan officer understand the borrower's associated problems. The factors for evaluation generally used in this situation are in line

with the 6C principles of basic lending. These 6C's are character, capacity, capital, collateral, conditions and control (Rose, 1991), which are also important reference indexes for banks when making a credit analysis to decide whether or not a borrower is worthy of a loan.

Viewed overall, according to the 6C principles, the internal measure for measuring the value or quality of the output at this stage, regarding the visiting report, can be determined by whether the collection of information by the loan officer concerning the 6C's is accurate and complete or not.

By analyzing a borrower's situation using the 6C principles, the comparatively more difficult situations encountered by a loan officer become capacity and condition because in addition to the understanding and analysis of the information about capacity and condition. It is also necessary to determine whether any future changes will affect the financial situation and the loan repaying ability of an enterprise. Therefore, if an excellent, professional loan officer can accurately and completely collect information in these capacity and condition, the value of the visiting report will be high.

When a loan officer completes the visiting report, he or she enters the activity of credit analysis. The primary outputs of this activity are the financial analysis report and the recommendation report. The credit analyst has to proceed with financial analysis first in accordance with the business financial reports and related documents collected the loan officer, and turn them into relevant financial reports.

At this stage, the internal measure is used to measure the quality of the analysis the loan recommendation report, as prepared by the analyst at the credit department using the 6C information. In other words, a comprehensive description and explanation must be provided regarding how to carry out the analysis and whether to approve object to the loan.

During the analytical process of this stage, there are two difficulties:

1. How to analyze and predict the borrower's recent financial situation and loan repaying ability according to the collected information regarding capacity and condition of the borrower; and
2. How to provide an appropriate recommendation as to the interest rate of the loan, since only good recommendations will cause the bank not to incur a loss

3. Thus, if the associated staff at the credit department can conquer these two difficulties, the value and quality of the financial analysis report and recommendation report can be enhanced.

When the above two reports are complete, they are submitted to the loan officer who proceeds with the decision-making process of the loan. The outputs after entering the third activity, the decision-making, consist of the report of the decision and the final C&I loan terms. When a loan officer proceeds with the lending decision in accordance with the recommendation offered by the credit department, there will be three follow-up circumstances. The first is where both the credit department and loan officer object to the lending. The second is where both approve of the loan. The third is where either entity objects to the lending. If one party objects, the objecting party must explain his or her reasons in the report regarding that decision. Generally speaking, main differences of opinion regarding the loan can arise from different opinions and viewpoints held about the estimation of the future development of the borrower. Under these circumstances, the internal measure used to measure the outputs at this stage the loan process relates to the quality of the 6C information used in the report of the decision provides an explanation and prediction of the future financial condition of the corporate enterprise seeking the loan.

When both object to the lending, the entire lending process comes to an end and there will be no activity and output at the next stage. On the other hand, when both approve of the loan, the loan officer will notify the borrower and move on to the negotiation of the lending conditions, the next step. The interest rate of the loan is then used as the internal measure for the outputs at this stage. The interest rate is based the estimated risk of a particular borrower, therefore, the higher the lending interest rates after negotiation, the higher the value of the outputs. To avoid the adverse selection problem, i.e. that the higher lending interest rates are associated with higher loan risk, the internal performance measure approach here tries to reduce the asymmetric information between borrower and bank by monitoring the employees and accurately assess the borrower's management capability and its strategic fit.

Internal measures for lending documentation

When the lending is confirmed and related lending terms are negotiated, the stage of document preparation begins. The outputs of this stage are the documents and contracts related to this loan. The internal measure for assessing the outputs refers to the accuracy achieved in the preparation of the loan-related documents and contracts. The purpose here is to avoid differences in the terms of negotiation set down in the relevant documents. After this step, the completed documents and contracts are submitted to the loan officer for processing and signing by the borrower. Following this exercise, the entire lending process moves to the closing stage.

The output of the closing stage is the received document or collateral. The internal measures here will indicate whether the documents and contracts selected and received are complete, and whether the amount and quality of the collateral conform to the executed decision report. Next, the person in charge needs to submit relevant documents and information to the loan operation and credit department for the recording stage. The important outputs of this stage are the operating files and credit files. The internal measure at this stage is a determination of whether any documents are missing. The bank must be prevented during the document review and loan information stages from inaccurate assessments of the borrower because of incomplete information, as well as inaccurate assessments of the entire lending process at hand, again because of missing documents.

Internal measures for loan review

The pre-operation of the entire loan comes to an end upon the completion of the recording of the lending document. Following this stage is the servicing and administration for lending processes executed by the bank, such as loan review, the most crucial aspect. The main purposes now are to understand the borrowing enterprise and to continue supervising and monitoring for any possible future changes and difficulties that the enterprise may experience. Such administration and monitoring will ensure that the entire lending process will be accomplished successfully.

The output upon the completion of the loan operation is the term report of payment, and the aim of which is to determine regularly all aspects of the borrower's loan payment costs. Thus, the internal measure selected for assessment at this stage is whether and when to make a timely reaction to any irregular payment by the borrower. In the next

stage, the loan officer has to pay regular visits to acquire an understanding of the borrower's current and future situation and collect related information. The output of this stage is the term report after a periodic inspection visit. This collection of information should follow the 6C principles at the application stage and involve a comparison of differences in the corresponding information that was involved at successive stages of the loan process. The internal measure for assessing the output of this stage rests on the accuracy and completeness of the 6C information collected during the periodic inspection process.

After the visits, the report made by the loan officer is submitted to the credit department for financial review and for new or renewed recommendations. Thus, the term report of financial analysis and recommendation become the outputs. The aim is to truly understand whether the borrower's own financial situation and structure have altered and if the originally promised value of collateral differs from later assessments.

Consequently, the internal measure for assessing the output of this stage takes on the nature of the former stage of credit analysis as reference, that is, the quality of the analysis of recommendation report regarding 6C information.

In this stage, the loan officer and credit department staff can still face problem described previously that has been identified, i.e. that either entity objects to the continuing lending. When these two persons in charge recognize that changes in the borrower's current financial situation have occurred and result can be a slump in the entire industrial environment and market, the possibility of collecting the loan back early must be addressed. Certainly, a wrong decision here will affect the profit earnings of this loan. When the entire lending process has come to an end, the output of this stage represents the profit earning status of the loan, which is also the final measure of the loan in terms of lending performance assessment.

The researcher concluded that the final measures were mainly used to carry out performance assessment in evaluating bank lending performance. However, these methods usually created problems, such as the incapability of predicting whether a particular lending operation might turn into a problem loan; the inconsistency in the point of timing during performance assessment, the problematic length of time for

routine assessment; and the neglecting of internal quality control in the entire lending process.

To prevent such problems, an internal measure approach can be used to monitor the value added at each stage along the vertical chain of lending activity. The internal measure at each stage is the output of the employee's service at each stage. The main concern then becomes the quality of these outputs. Among these measures, the specific internal measures used to evaluate the accuracy of a loan officer's analysis of the borrower's capacity and condition are critical to reducing overdue loans and bad debts.

Such measures are mainly adopted in order to analyze the borrower's strategies and organizational architecture. Considerable research has proved that the borrower's strategies and organizational architecture to be the most important determinants of firm profitability and the firm's ability to repay the banking loan. To this end, we have constructed a comprehensive analytical framework that will improve the accuracy of analyzing a borrower's capacity and condition.

Compared with final measures (DEA, benchmark, and productivity measures), the internal measures proposed in this research are more subjective. Such subjectivity is the characteristic of quality-oriented measure. The best we can do in this research instance is to provide a monitoring direction, not the exact scale of these measures. To implement such internal measure system, suggestions are:

1. To enhance the ability of a lending department to review a borrower's capacity and condition, the bank should provide more training programs in business strategy and organizational management to the employees in the lending department; and
2. To evaluate the job performance of these department employees, banks should select their performance evaluators from those with superior knowledge in business strategies and organizational management.

The major benefit of using an internal measure to monitor the output quality of the employees in a lending department is a reduction in the likelihood of employee moral hazard behaviors. This reduction in turn would ease the lending operational risk, one of the main purposes of Basel II. To cope with employee fraud, a monitoring system of

double checks from upper level managers about the rightness of any loan is a must. However, the asymmetric information between senior manager and the employee in a lending department about the employee's wrong doing always will exist. To effectively use local knowledge about possible fraud from a particular employee, assigning loan decision rights to teams might effectively prevent individual fraud. The final decision for a loan should be made through consensus or some type of voting mechanism among any team members who have participated in the evaluation process for the loan. Further study regarding team decision as well as the separation of decision management and control of lending inside a bank organization might be two of the directions future research can take regarding the prevention of employee fraud.

Corsby, Nick French and Meilanie Oughton (2003), researchers try to find out mortgage lending value in term in Europe should be based on sustainable values and this recommendation is compared to the current basis used for bank lending valuations mainly market value. According to them, the mortgage lending value shall mean that the value of the property as determined by a valuer making a product assessment of the future marketability of the property by taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of property. Speculative elements shall not be taken into account in the assessment of the mortgage lending value. The mortgage lending value shall be documented in a transparent and clear manner.

In very simplistic term, bank lending falls into two categories, i.e. asset specific and corporate loan. These loans, in turn, can be divided into two further categories of secured and unsecured lending. It is in the case of secured lending that valuations are most directly and commonly used. In unsecured lending valuations are frequently relied on indirectly.

In secured lending, the underlying philosophy has been to determine the value of the assets on which the loan is based and to ensure that the former is greater than the amount borrowed. The degree by which the asset value exceeds the loan provides the margin of assets cover assessed thorough the loan to value ratio. The lender is interested in the position should be the borrower default and have an idea on the amount that the sale of the property asset would realize were the borrower, lender or receiver to sell the asset.

Another principal use of valuations is for assessments of corporate cash flow projections, used in most forms of lending. Here, the valuation figure and liquidity of assets are of equal importance. The valuations are relied on might be directly commissioned by the lender or could have been produced by the borrower other third parties for other reasons for requiring valuation might include calculations of net asset value, justification for granting the second charge; verification of the borrower's veracity decisions on action following the default of the borrower.

However, the changing influence of different types of information does not seem to have reduce lenders' desires for a valuation of the security and a number of initiatives have occurred which attempt to improve the ability of the valuation to under the loan decision. According to their view three main aspects of valuation are

- i) Improve the communication between lender and valuer and agree more detailed relevant instructions.
- ii) Develop new concepts and bases of valuation
- iii) Improve the quality of information provision in valuation reporting

They concluded that the problem in valuation is quite straightforward. The banking communities are trying to identify a basis of value to which they can apply a loan value ratio and thus project their loan in the future should the borrower default. A simplistic understanding of value would therefore suggest that the figure provided should be a figure which has a life for the length of the loan. However, this very concept is economically impossible in any market with volatility. Values can only be snapshots in time. They do not have a shelf life. For this reason European mortgage lending valuation is conceptually and particularly redundant in real estate markets. It appears on the surface to be a solution to the banks' requirement for reduced risk property lending. In reality it may indeed transfer that risk by demanding a level of protection to the bank that valuation can not give. But if valuers agree to it, then it could be the very to successful negligence claims in the aftermath of poor lending decision. This is because to concept appears to be determination of the virtually certain level of value below which the value will not fall for and indeterminate time into the future.

2.4 Review of National Literature

Thapa (1994), has presented his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing but compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are operating with a nominal profit, the later turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. Because of these two local banks, in traditional off-balance sheet operations, these banks have not been able to increase their income from commission and discount. On the contrary, they have heavy burden of personnel and administrative overheads. Similarly, due to huge amount of accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign joint venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of bonus to employees and dividends to the shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet operations and efficient personnel management has added to the maximization of their profits.

At the end of this article, he concluded that by its very nature of the public sector, the domestic banks could not compete with the private sector banks. Therefore, only remedy to the problem of these banks, as the government decides, is to hand over the ownership as well as the management of these banks to the private hands.

Pradhan (2003), has said that, "It is true that a business institution. It has to mobilize its fund to economic inevitable sectors to increase income; otherwise, there is no possibility to survive. This is not major subject to increase application of demanding loan, but the major subject is bank's safety investment, which helps to collect its all investment with good return. In addition, he said that before distributing loan, bank must ensure

investment with good return. In addition, he said that before distributing loan, bank must investigate its client's project, experience, economic position, markets etc."

Pokharel (2008), has stressed that highest liquidity makes the financial institutions un-bankable by creating unnecessary burden of bearing the cost of capital. He expresses that most of the financial institutions are lying on uneconomic situation due to ineffectiveness of portfolio management on the one hand and deficiencies of efficient modern management on the other. As for the betterment of the financial possibility in portfolio projects, like health, residential buildings, communications etc.

Pokharel further suggests that banks need to make strong strategy urgently with shifting the money from fixed deposit to saving reducing the interest between deposits and interest spread in both sectors. He highlights that fixed deposit has been increasing in the ratio of 0.44 to 0.95 from 1990 to 1999.

2.5 Review of Previous Research Work

Master's degree researches are the important sources of literature review. Master's degree students have completed studies on various aspects of. Several thesis works had been carried out by various students regarding the various aspects of s such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization, capital structure etc. Some of the relevant findings of the research works for the study are presented below:

Khadka (2001), mainly focuses on investment policy in commercial banks and the sample size only one commercial bank, which is Nepal Arab Bank Ltd. Statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Major objectives of the study are as follows:

- J To evaluate the liquidity, assets management efficiency and profitability positions related to fund mobilization of NABIL in comparison to other JVBs.
- J To discuss fund mobilization and investment policy of NABIL in respect to its fee-based off-balance sheet transaction and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of the total deposits, and net profit of sample banks.

-)] To find out the relationship between deposit and total investment, deposit and loans and advances, and net profit and outside assets of sample banks.
-)] To evaluate the trend of deposit utilization and its projection for next five years in case of NABIL comparing it with that of other JVBs and to suggest and recommend some measures on the banks of comparative fund mobilization and investment policy of NABIL and other JVBs for the improvement of financial performance of NABIL in future.

The research findings and recommendation of the study are as follows:

-)] The liquidity position of Nabil Bank Limited is comparatively worse than that of other joint venture banks. Nabil Bank has more portions of current assets as loan and advances but less portion as investment on government securities.
-)] It is also comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation than that of other JVBs.
-)] In the case of profitability ratio it is found that the profitability position of NABIL is comparatively not better than that of other JVBs. NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit as compared to other JVBs.
-)] There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between total deposits and total investment in case of both Nabil Bank Limited and other JVBs.

Tuladhar (2002), mainly focuses on investment policy in commercial banks and the sample size only one commercial bank, which is Standard Chartered Bank Limited. Researcher used different type of statistical tools i.e., mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

-)] To study the fund mobilization and investment policy with respect to fee-based off-balance sheet transaction and fund-based on-balance sheet.
-)] To evaluate the liquidity, efficiency of assets management and profitability position.
-)] To evaluate the growth ratios of loan and advances and total investment with respect to growth rate of total deposit and net profit of sample banks.

-) To evaluate trends of deposit utilization toward total investment and loan and advances and its projection for five years.
-) To perform empirical study on the customers' view and ideas regarding the existing services and adopted investment policy of the joint venture banks and to provide suggestions and recommendation on the basis of the study.

The research findings and recommendation of the study are as follows:

-) The measurement of liquidity has revealed that the mean current ratio of all the three banks under study is not widely varied. All of them are capable in discharging their current liability by current assets.
-) The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Limited (HBL) has high volume of saving and fixed deposits as compared to current deposits resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
-) SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loan and advances to total assets whereas Nabil Bank Limited has the highest due to steady and high volume of loan and advances throughout the study period.
-) The ratio of investment to the investment on loan and advances has measured the total portion of investment in total of investment and advances. The mean ratio among the banks has not deviated significantly.
-) The loan and advances and investment to deposits ratio has shown that Nabil Bank Limited has deployed the highest proportion of its total deposits in earning activities. This is the indication of fund mobilizing activities Nabil Bank Limited is significantly better.
-) The lending in commercial purpose is the highest in case of Nabil Bank Limited and least in case of SCBNL. SCBNL has contribution in service sector lending. It has contributed 24.47% of its total credit in general use and social purpose.
-) The total income to total assets ratio measures the earning power of each rupee employed by the bank. Nabil's ratio in this case is the best. The ratio of total

income to total expense reflects the earning capacity of a rupee or expense. The productivity of expenses in SCBNL is the best.

-) The performance of SCBNL is significantly better than other two banks under study in case of profitability. EPS is the highest in case of SCBNL.

Thapa (2003), mainly focuses on comparative study investment policy in commercial banks and the sample size is Nepal Bangladesh Bank Ltd. And other joint venture Banks. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

-) To evaluate the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparison to NABIL and NGBL.
-) To analyze the relationship between loans and advances total investment with other financial variables of sample banks.
-) To examine the fund mobilization and investment policy of NB Bank through off-balance sheet and on-balance sheet activities in comparison to the other two banks.
-) To study the various risk in investment and to analyze the deposit utilization trend and its projection for improving the investment policy of NB bank on the basis of the findings of the analysis.

The research findings and recommendation of the study are as follows:

-) The liquidity position of NB Bank is comparatively better than that of NABIL and NGBL.
-) NB Bank has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratios.
-) It has good deposit collections, has made enough loans and advances but it has made the negligible amount of investment in government securities.
-) The NB bank is not in better position regarding its on-balance as well as off-balance sheet activities as compared to NABIL and NGBL. It does not seem to follow any definite policy regarding the management of its assets.
-) The profitability position of NB Bank is comparatively worse than that of NABIL and NGBL. The bank must maintain its high profit margin for the well being in future.

-) NB bank has maintained a high growth rate in comparison to other banks through it is not successful to make enough investment. One can say that the bank is successful in increasing its sources of funds and its mobilization.
-) There is significant relationship between deposit and loans and advances and outside asset and net profit of NB bank, NABIL and NGBL. But there is not significant relationship between deposit and investment of NB bank only.
-) The position of NB bank in regards to utilization of the fund to earn profit is not better in comparison to NABIL and NGBL.
-) NB bank has not provided credit card facility, any branch banking system (ABBS) facilities and web site etc. but these facilities are being provided by the NABIL and NGBL.
-) NB bank is not in better position regarding the proportion of fee-based activities to loans and advances as compared to other two banks during the study period. NB bank in terms of recovery of loan is worse in comparison to NABIL and NGBL.

Joshi (2005), focuses on investment policy in commercial banks and the sample size only three commercial banks which are Everest Bank Ltd., Nabil Bank Limited and Bank of Kathmandu Ltd. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

-) The liquidity position of EBL is comparatively better than Nabil and BOK. EBL.
-) To analysis of assets management ratio or activity ratio.
-) To study, loan and advances to total deposit.

The research findings and recommendation of the study are as follows:

-) The liquidity position of EBL is comparatively better than Nabil and BOK. EBL. has the highest cash and bank balance to total deposits, cash and bank balance to current assets ratio. Nabil has the lowest liquidity position than that of the two other banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan and advances.

- J Form the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to Nabil and BOK. The total investment of EBL is in between as compared to other two banks.
- J In the study, loan and advances to total deposit is higher in BOK but total investment to total deposit is higher in Nabil. Investment on shares and debentures to total working fund ratio is higher in BOK. But the coefficient of variation is higher in EBL.
- J In analysis of profitability, total interest earned to total outside assets of EBL is lowest between the three banks. But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared banks i.e. Nabil and BOK. From the view point of risk ratio, EBL has higher capital risk but average of credit risk in comparison to Nabil and BOK.

Adhikari (2006), focuses on investment policy of Nepal Industrial Development Corporation. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

- J Analysis of fluctuation in the approved and disbursed loan.
- J To analysis the role in the industrial development of the country the corporation.

The research findings and recommendation of the study are as follows:

- J There is a fluctuation in the approved and disbursed loan.
- J Sometimes, the approval amount has gone up but the disbursement has been lowered and vice versa, as well as there is increasing and decreasing trends in the investment pattern year by year.
- J In view of the liberal economic policy adopted by HMG and open market competition, the corporation has made its investment policy more flexible and expanded into resources mobilizing sector.
- J The corporation has given priority to the project based on indigenous raw materials and man power as well as sought the policy of investing in small hydro-electricity projects.

-)] In conclusion, it is said that in order to play a more dynamic role in the industrial development of the country the corporation has made plans to increase its paid-up capital, reserve fund and slowly move toward privatization.

Jha (2007), mainly focuses on comparative analysis of financial performance of commercial banks. The sample size only three banks which are NIBL, NGBL AND HBL. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

-)] To analysis the loan providing system.
-)] Profitability analysis the selected banks.
-)] To analysis the earning capacity in average.

The research findings and recommendation of the study are as follows:

-)] General loan loss provision to total loan in case of Nabil has the highest among NIBL, NGBL and HBL.
-)] Credit deposit ratio stood the highest at the end of FY 1996/97 of the selected banks.
-)] NGBL has been investing most of its deposits in foreign investments.
-)] NGBL has the highest EPS and cash dividend per share in average.
-)] Nabil's other operating income is appeared higher than other banks.

Shakya (2008), focuses on financial analysis of joint venture banks and the sample size only two banks which are NABIL and NGBL. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

-)] Analysis the cash and bank balance to total deposit ratio.
-)] Liquidity position of sample banks.
-)] To analysis the Loans and advances to total deposits ratio.

The research findings and recommendation of the study are as follows:

-) The cash and bank balance to total deposit ratio of NABIL Bank Limited is in fluctuating trend whereas the same ratio of NGBL is in decreasing trend.
-) NGBL's liquidity position is comparatively better than that of NABIL Bank Limited.
-) Loans and advances to total deposits ratio is in fluctuating trend in case of Nabil bank and the same for NGBL is firstly in increasing trend then following the declining trend.

2.6 Research Gap

Investment in different sectors and collecting deposits from various sectors are made on the basis of the directives and circulars of Nepal Rastra Bank as well as the investment guidelines and policy of the concerned commercial banks have to follow these directives and circulars as their own guidelines and policies. Furthermore, their own deposit collection and investment guidelines and policies should be inline with NRB directives and Circulars. So, research gap of the study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the recent financial data, NRB circulars and guidelines than that of previously studies.

The optimum diversification of investment reduce the default risk. It guided to optimum collection of deposits from various sectors. It is the major concern of the stakeholders to know the portfolio of the bank. This study puts its effort to find out the proportion of investment and deposit collection of bank to different sectors of economy and analyse the diversification of investment as well as collection of deposits.

No case has yet been found on deposits and investment pattern in recent data. The researcher has to define the data in a simple way using simple regression, correlation and hypothesis T-test.

So this study will help and be fruitful to those interested scholars, teachers, businesspersons, new comers, civil society and government.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter is related to the research methodology applied in the entire aspect of the study. Research methodology is a research tool which is used to test the hypothesis and to come to a factual conclusion. It refers to the logical sequence of various steps to be adopted by a researcher in studying problems with certain objectives. In other words, research methodology describes the method and process applied in the entire subject of the study. This chapter includes research design, population and sampling, nature and sources of data, analysis of data and tools for analysis.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variance. Research design specifies an outline of plan to be carried out concerning with the proposed research world. The design is in simple form but it covers the main comprehension of the study. The research design show the investment situation of the banks in derived from using seven years data from internally generated accounting records maintained by Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. To accomplish this study, the applied design is descriptive and core perspective because the secondary data have been mainly applied for analysis. This research has been done to analyze the patterns of deposit and investment of s based on historical data and information. So most of the data and information of the study are related with past phenomena of the performance. So it can be regarded as historical research. According to Kothari "Research design is a plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variances."

This research is the arrangement of conceived so as to obtain the answers to research question and to control variances. It is the arrangement of condition for collection and analysis of data. To achieve the objective of the study, quantitative or analytical based as well as descriptive research design has been used.

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

3.2 Population and Sample

There are altogether 28 commercial banks operating all over the kingdom and all most all commercial bank's stock are traded actively in the stock market. Therefore the total numbers of commercial banks are taken as population and the three banks under study i.e. Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited are taken as sample.

3.3 Nature and Source of Data Collection

The present study is mainly based on secondary data related with the three banks under study viz. Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. The data related to the investment i.e. loans and advances, deposits and profit/loss are directly obtained from banks annual reports and financial statements of the banks. Likewise, journals, newspapers, periodicals, magazines, reports and unpublished thesis have been taken as other sources of data during the study.

Based on the requirements and objectives, all the secondary data were compiled, processed and tabulated in time series. In order to judge the reliability of data provided by the banks and other sources, they were complemented with the annual report of the auditor. Formal and informal talks to the concerned head of departments of the banks were also helpful to obtain the additional information of the related problems.

3.4 Analysis of Data

Several financial and statistical tools are used to analyze the collected data and to achieve the results of the study. The analysis of data will be done according to the pattern of data available because of limited time and resources. Simple analytical and statistical tools such as percentake, Karl Pearson's coefficient of correlation, method od least square and test of hypothesis are used in this study. Similarly, some accounting tools such as ratio analysis and trend analysis have also been used for financial analysis. The selective techniques of data analysis have been used according to pattern of available data. Various statistical and financial data have also been taken in this heading.

3.5 Financial Tools (Ratio Analysis)

Ratio analysis is the calculation and interpretation of financial ratio to assets and the firm's performance and status. It is the relationship between two accounting figures expressed mathematically.

"Ratio analysis is the main tool of financial statement analysis. Ratio means the numerical quantities relationship between two items or variables. It can be expressed as percentage, fraction or stated comparison between numbers."

Financial ratio is the mathematical relationship between two accounting figures. "Ratio analysis is used to compare a firm's financial performance and status to that of other firms or to itself overtime." From the help of ratio analysis, the quantities judgment can be done regarding financial performance of a firm.

3.5.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligation. Liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of a company to meet its obligation due to lack of sufficient liquidity, will result in a poor credit worthiness, loss of credit or confidence, or even in legal angles resulting in a closure of the company. Very high degree of liquidity is also harmful. Idle assets earn nothing. The firm's funds will be the necessarily tied in current assets. Therefore, it is necessary to strike a proper balance between profitability and liquidity. It is because high liquidity reduces the profitability. Depending on the special nature of current assets and current liabilities of the Bank, the used ratios are given below:

3.5.1.1 Current Ratio

Current ratio is a measure of firm's liquidity. It indicates the availability of current assets in rupees for every one rupees of current liability. As a conventional rate, a current ratio of 2:1 is considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In spite of its shortcoming, it is a crude and quick measure of the firm's liquidity. Current ratio is computed by dividing current assets by current liabilities.

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

3.5.1.2 Cash and Bank Balance to Total Deposit Ratio

Total deposit consists of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits. This ratio shows the proportion of total deposits held as most liquid assets. High ratios show the strong liquidity position of the bank. But high ratio is not favorable for the bank because it produces adverse effect on profitability due to idleness of high interest bearing funds. This ratio is calculated by dividing cash and bank balances by total deposit. Cash and bank balance include cash in hand, foreign currency cash in hand, cheques and other cash items, balances with domestic Bank and balance held abroad. The total deposits consist of current deposit, saving deposit, fixed deposit, and money at call, short notice and other deposits.

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

3.5.1.3 Investment on Government Securities To Current Assets

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. This can be stated as:

$$\begin{aligned} &\text{Investment on Government Securities to Current Assets} \\ &= \frac{\text{Investment on Government Securities}}{\text{Total working Funds}} \end{aligned}$$

3.5.1.4 Loans and Advances to Current Assets

Total Current this ratio can be computed by dividing loans and advances by current assets. This can be mentioned as:

$$\text{Loans and Advances to Current Assets} = \frac{\text{Loans and Advances}}{\text{Current Assets}}$$

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

3.5.1.5 NRB Balance to Total Deposit Ratios

This ratio shows the percentage of NRB deposit to total deposit. This ratio is calculated by dividing balance with NRB by total deposits. The NRB balance consists of cash in hand, foreign currency cash items, balance with NRB and domestic Banks, balance held abroad and money at call and short notice.

$$\text{NRB Balance to Total Deposit Ratios} = \frac{\text{Balance with NRB}}{\text{Total Deposit}}$$

3.5.2 Activity Ratio

Funds of creditors and owners are invested in various assets to generate revenue and profits. The better the management of assets, the larger will be the amount of revenue. Activity ratios are employed to evaluate the efficiently with which the firm manages and utilizes its assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into revenue. Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. Various activity ratios can be calculated to evaluate the effectiveness of the assets utilization which are as follows:

3.5.2.1 Total Investment To Total Deposit Ratio

Total investment consists of investment on government securities, investment on debenture and bonds, shares in subsidiary companies, shares in other companies and other investment. This ratio can be calculated by dividing total investment by total deposit, it can be mentioned as:

$$\text{Total investment to total deposit ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

3.5.2.2 Loans And Advances To Total Deposit Ratio

This ratio is computed by dividing total loans and advances by total deposit. Loans and advances consist of loans, advances, cash credit, overdrafts, and foreign bills purchased and discounted. The ratio presents the proportion of total deposit invested in loans and advances. High rate means the greater use of deposits for investing in loans and advances but very high ratios may indicate poor liquidity positions and risk in loans. On the contrary, too low ratios may be the cause of idle cash which do not generate any earning.

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

3.5.2.3 Loans And Advances To Total Working Fund Ratio

This ratio is calculated by dividing loans and advances by total working fund. This can be calculated as:

$$\text{Loans and advances to total Working fund ratio} = \frac{\text{Loans and Advances}}{\text{Total Working Funds}}$$

The denominator includes all assets of On-balance sheet items. In other words, 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.

3.5.2.4 Investment On Government Securities To Total Working Fund Ratio

This ratio is calculated by dividing investment on government securities by total working fund. This can be stated as:

$$= \frac{\text{Investment on government securities}}{\text{Total working funds}}$$

3.5.2.5 Investment On Shares And Debentures To Total Working Fund Ratio

This ratio can be computed by dividing investment on share and debenture by total working fund. This can be stated as:

$$= \frac{\text{Investment on share debenture}}{\text{Total working funds}}$$

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

3.5.2.6 Total Off-Balance Sheet (OBS) Operation To Loan And Advances Ratio:

This ratio is calculated by dividing total OBS operation by loans and advances. This can be stated as:

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

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

3.5.2.7 Money At Call And Investment To Total Deposit Ratios:

This ratio is computed by dividing money at call and investments by total deposits. This can be stated as:

$$= \frac{\text{Money at call and investments}}{\text{Total deposits}}$$

Investment includes investment in HMG treasury bills, Development bonds, company shares, money at call and other investment.

3.5.3 Profitability Ratio

A company should earn profits to survive and grow over a long period. A profit is the difference between revenues and expense over a period of time (usually one year). Profit is the ultimate output of a company in operation, and it will have no future if it fails to make sufficient profits. Therefore, the financial managers should continuously evaluate the efficiency of the company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principle regularly in time. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profits. Following major types of profitability ratios are used for evaluating the investment and deposit patterns of sample banks:

3.5.3.1 Return On Total Deposit Ratio:

This ratio is computed by dividing net profit after tax by total deposit. This ratio is used to indicate and make clear about the relation of net profit after tax by the bank with the total deposit accumulated. Higher ratio is the index of strong profitability position. This can be stated as:

$$= \frac{\text{Net profit}}{\text{Total deposit}}$$

3.5.3.2 Return On Loans And Advances Ratio

The ratio is calculated by dividing net profit by loans and advances. This can be stated as:

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

3.5.3.3 Total Interest Expenses To Total Interest Income Ratio

This ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view. The ratio is obtained by dividing total interest expenses by total interest income. This can be stated as:

$$= \frac{\text{Total interest expenses}}{\text{Total interest income}} \times 100\%$$

Total interest expenses consist of interest expenses incurred for deposit, borrowing and loans taken by the Bank. Total interest income includes interest income received from loans, advances, cash credit, overdrafts, and government securities, inter bank and other investments.

3.6 Statistical Tools

The science of statistics is the methods judging coactive, natural social phenomenon from the results, obtained from the analysis or enumeration or collection of estimates. Statistics is the science which deals with classification and tabulation of numerical facts on the basis of explanation, description and comparison of phenomenon.

Various statistical tools can be used for the analysis the data available to the researcher. These tools are used in research in order to draw the reliable conclusion from the analysis of financial data. Following statistical tools are used for our study purpose:

3.6.1 Arithmetic Mean

Arithmetic mean is given set of observation. It is the sum divided by the number of observation. An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group. As typical of all the values in the group, arithmetic means is a useful tool in statistical analysis.

In general, if X_1, X_2, \dots, X_n are given n observation, then their arithmetic mean usually denoted by mean, is given by

$$\text{Mean } (\bar{x}) = \frac{x_1 + x_2 + \dots + x_n}{n}$$

Where $\sum x$ = The sum of the observation.

Where n = Number of the observation.

3.6.2 Co-efficient of Correlation between different variables

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

- (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 made appropriate policy regarding deposit collection, fund utilization (loans & advances and investment) and maximization of profit. The correlation coefficient (r) between two variables X and Y can be obtained by using following formula:

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

Following general points may be borne in mind, while interpreting an observed value of correlation coefficient.

1. If r=+1 implies that there is perfect positive correlation between the variables.
2. If r=-1, there is perfect negative correlation between the variables.
3. If r=0, the variables are uncorrelated. However r=0 does not imply that the variable are independent.

If r lying between +1 and -1, there are no set guidelines for its interpretation, the maximum, we can conclude that closer the value of r to 0, the less closed is the relationship between them. One should be very careful in interpreting the value of r as it is often misinterpreted.

3.6.3 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. The cause and effects of relationship clearly indicated through regression analysis than by correlation. In other words, regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. There are two types of variables

i.e. dependent variables and independent variables. The variables whose value is influenced or to be predicated is called dependent variable whereas the variable which influences the value or used for prediction is called independent variable. Thus regression analysis studies the statistical relationship between the variables. The main objective of regression is to predict or estimate the value of variables corresponding to a given value of independent variables. While regression analysis has been developed to study and measure the statistical relationship between two variables only then the process is known as the simple regression analysis. Regression lines expresses in terms of mathematical relations are known as regression equations. It is the line which gives the best estimates for the value of y for any specified values of X.

Regression equation of Y on X is given by

$$Y = a + bx$$

Where,

Y = dependent variable

X= Independent variable

a = Intercept of the line

b = Slope of the line

The value of the constants 'a' and 'b' can be determined by solving two normal equations (applying principle of method of least squares).

$$y = na + b \sum x \quad \dots\dots\dots \text{ii}$$

$$\sum xy = a \sum x + b \sum x^2 \quad \dots\dots\dots \text{iii}$$

3.6.4 Test of Hypothesis (t-test)

Test of hypothesis is a useful tool to know the significance of the parameters. The objectives of this test are to test the significance regarding the parameters of the population on the basis of sample drawn from the population. In the study, t-test have been done:

If we draw a large number of small samples i.e. ($n < 30$) and compute the mean for each sample and then plot the frequency distribution of these mean, the resulting sampling distribution would be t-test. On these study sample are taken only for seven years i.e. ($7 < 30$).

CHAPTER–IV

DATA PRESENTATION AND ANALYSIS

This chapter is related to the presentation and analysis of data collected from various secondary sources. This chapter has been divided into two main sections. The first section of the chapter deals with the analysis of secondary data and second section deals with major findings of the study.

This is an analytical chapter, mainly related to comparison of the investment, deposits, total assets and loans and advances of Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited. From the view point of the deposit and investment policies only those ratios are calculated and analyzed which are relevant and important for the study. The ratios are designed and calculated to highlight the relationship between financial items and figures.

4.1 Deposits, Loans & Investment Structure Of Nepalese Commercial Banks

There are 28 registered commercial banks in Nepal. The collection of data from all these banks would have been much more difficult due to the time constraints and unavailability of data. Therefore, the evaluation analysis is done for Nepal SBI Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited in detail.

4.1.1 Deposits of Nepal SBI Bank Limited

Table: 4.1

Deposits of Nepal SBI Bank Limited

(Rs. In Million)

Source	2004/5	2005/6	2006/7	2007/8	2008/9
Current	1712.6	1774.1	1375.4	1930.4	1738.1
Savings	2024.2	2684.7	2832.7	3274.7	4171.2
Fixed	3371.4	4086.4	6116.2	5517.3	6854.9
Call Deposits	-	-	449.0	624.7	828.8
Others	123.9	100.6	79.4	98.1	122.4
Total	7232.1	8645.8	10852.7	11445.2	13725.4
% Growth		19.55	25.53	5.46	19.92
Mean	1446.42	1729.16	2170.54	2289.04	2745.08
S.D.	1540.2	2120.30	2415.23	2630.85	2930.15
C.V.%	106.48	122.62	111.27	114.93	106.74

Source: Annual Reports

From the data given in table no. 4.1 above, it is found that the total deposits grew up hugely by 19.55% in fiscal year (FY) 2005/06 but in the fiscal year 2006/07, the total deposits increased by only 25.53% to reach Rs. 10852.7 Million from Rs. 8645.80 million. Later in the following years the deposit level continuously increased reaching to Rs. 13725.4 Million in the last fiscal year of 2008/09. The above table shows the deposit of SBI bank is increasing but in fluctuating trend.

4.1.2 Deposits, Loans and Investments of Nepal SBI Bank Limited

The table below shows the relationship between deposits, loans and investment of NSBL during the study period.

Table 4.2
Deposits, Loans and Investments of SBI Bank Limited

(Rs. In Million)

Sources	2004/5	2005/6	2006/7	2007/8	2008/9
Deposits	7232.1	8645.8	10852.7	11445.2	13725.4

Loans & Advances	5490.9	6619.1	8059.6	9846.7	12574.9
Investments	1889.4	2607.7	3699.9	2377.5	5524.4
Loan to Deposits %	75.92	76.56	74.26	86.03	91.62
Investment to Deposit %	26.13	30.16	34.09	20.77	22.93
Growth of Investment%		38.02	41.88	-35.74	32.36

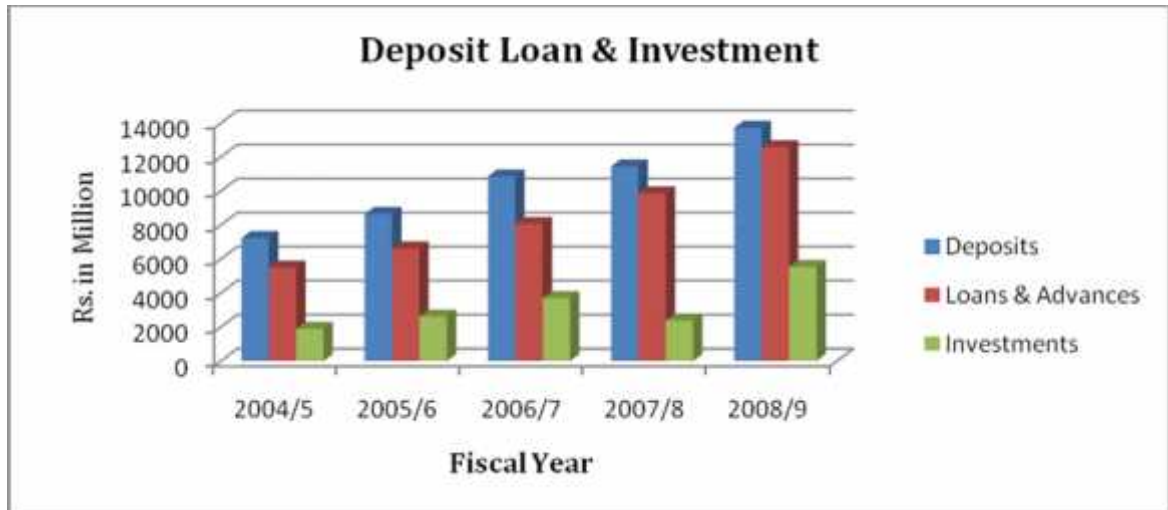
Source: Annual Reports

From the above table it is found out that the investment growth rate of NSBL in FY 2007/08 was highly negative i.e., -35.74% but there was a remarkably rise in growth rate in investment of 41.88% in the FY 2006/07. The investment growth rate is in increasing trend in the FY 2006/07 and then it is decreased in the FY 2007/08. This shows the high fluctuation in the investments of the bank during the study period.

Total loan to deposit in 2004/05 noted as 75.92 %, which declined to 74.26% in the year 2006/07. The improvement in the banks policies and reductions in CRR policies by the government enabled the bank to increase its loans and advances. In the year 2007/08 the growth rate was 86.03% and it was 91.62% in the FY 2008/09. That shows the SBI mobilized its fund by high percentage. The higher will be the lending higher is the profitability. That means the profitability of the bank also is increased.

The surplus idle money of the bank is invested in other sectors i.e. treasury bills etc. Here, it is clear that when the loan percentages decrease the investments at that particular period increases. The investment was in increasing with increasing in loan and advances. The bank makes it clear in their annual reports that the investing opportunities are reducing, which force them to avoid excess amount of interest bearing deposits.

Fig. 4.1
Deposits, Loans and Investment of NSBL



The above figure shows the growth in deposits, loans and advances and investments of NSBL in different years. It shows the ups and downs of total loan to deposit and total investment to deposits in seven years period.

In the loans to deposit percentages, there is a high fluctuation, in coming from FY 2004/2005 to 2005/06 i.e. came down straightly, but again it moved up in 2006/07. In FY 2007/08 it fell down slightly and recovered in the following fiscal years while moving till FY 2008/09.

Investment to total deposits percentages is almost constant after FY 2006/07. The investment growth rate shows higher ups and down during the study period.

4.2.2 Deposits of Everest Bank Limited

Table: 4.3
Deposits of Everest Bank Limited

(Rs. In Million)

Sources	2004/5	2005/6	2006/7	2007/8	2008/9
Current	719.8	1025.2	1155.2	2620.0	2492.3
Savings	3730.7	4806.9	6929.2	9018.0	11883.9
Fixed	2914.1	3444.5	4298.2	5658.7	6406.0
Call Deposits	565.6	704.4	1293.3	1578.9	2780.6
Others	133.8	116.8	126.6	222.1	221.4
Total	5461.1	6694.9	7430.8	10097.7	13802.4
% Growth	19.38	22.59	10.99	35.89	36.69
Mean	1092.22	1338.98	1486.16	2019.54	2760.50
S.D.	1089.05	1324.88	1474.40	1991.95	2780.84
C.V.%	99.71	98.95	99.21	98.63	100.74

Source: Annual Reports

From the table given above it is found that in FY 2004/05 the deposits growth rate as 19.38%. The deposit growth reduced to 10.99% in FY 2006/07 and to 19.38% in FY 2005/06. The growth rate slightly increased. Later the deposit growth rate again increased to 35.89% and 36.69% in the next two fiscal years 2007/08 and 2008/09 respectively. The bank's deposit has an increasing trend in the study period going from 2004/05 to 2008/09.

The C.V. % analysis shows an increasing trend in going to fiscal years 2006/07 and 2008/09 but has a declining trend in the deposit FY 2006/07. The deposits of EBL do not fluctuate too much.

4.2.3 Deposits, Loans and Investments of Everest Bank Limited

Table: 4.4
Deposits, Loans and Investments of EBL

(Rs. In Million)

Source	2004/5	2005/6	2006/7	2007/8	2008/9
---------------	---------------	---------------	---------------	---------------	---------------

Deposits	8064.0	10097.8	13802.5	19097.7	23976.3
Loans and Advance	6116.6	7914.4	10124.2	14059.2	18814.3
Investment	2466.4	2100.3	3548.6	4704.6	4906.5
Loan to deposits%	74.1	75.4	82.0	75.4	71.0
Investment to deposit %	31.0	24.7	34.1	21.1	30.4
% Growth of Investment	87.8	-2.3	53.3	-16.0	97.3

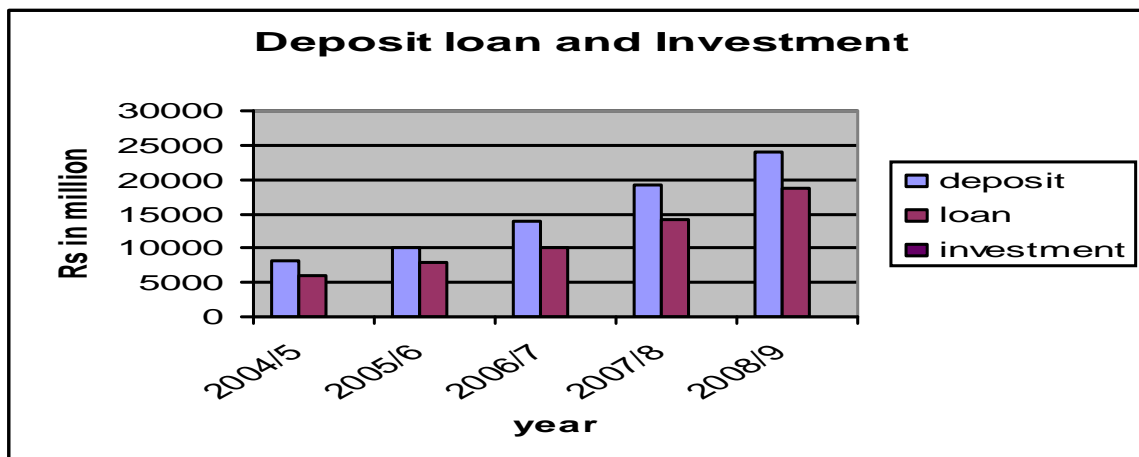
Source: Annual Reports

The above table shows that in FY 2004/05, 74.1% of the deposit of the EBL has been disbursed as loan and advances, but it reduced to 71.0% in the year 2008/09. In FY 2004/05 the loans and advances are recorded as 74.1% and was 75.4% in the next FY 2005/06 which increased to 82.0% in the following FY 2006/07 which declined to 75.4% and to 71.0% in the next two FY 2007/08 and 2008/09 respectively.

Investments of EBL to the total deposits are noted as 31.0%, 24.7%, 34.1%, 21.1%, and 30.4% in the fiscal years 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The trend of the investment to deposit is in the increasing trend till 2006/07 of the study period but it declined in the FY 2005/06 but again increased in FY 2008/09.

The table clearly depicts that increasing investment and reducing loans and advances from total deposits are the great problem for the banks to manage. The fluctuation in total deposits, loan and investments makes clear about the adjustments problem of the bank.

Fig: 4.2
Deposits, loans and investments of EBL



The figure shows how the loans and investments go graphically as the percentages of total deposits. Here, investment to deposits percentages moves downward till FY 2005/06 and 007/08 goes up tremendously in FY 2006/07 and 2008/09. The loan to deposit rates seems quite stable during the study period, whereas growth of the investment seems to continuously fluctuating during the study period.

4.2.4 Performances Highlights of Standard Chartered Bank Nepal Limited

Table: 4.5
Sources and Uses of Funds of Standard Chartered Bank Nepal Limited
 (Rs. In Million)

Sources	2004/5	2005/6	2006/7	2007/8	2008/9
Capital & reserve	1527.9	1278.2	1576.3	1755.3	2117.2
Deposits	21161.4	19344.0	23050.5	24640.3	29743.9
Borrowings	78.3	43.8	10.2	1190.9	-
Other Liabilities	1691.5	1334.9	1498.3	1658.8	1637.4
Uses					
Liquid funds	4241.8	3370.8	3253.5	3996.1	4247.7
Investments	7948.2	7204.6	8644.9	7115.7	8146.1
Loans & advances	6662.0	8213.5	89.5.1	10538.1	13355.0
Interest accrued	216.0	167.6	146.6	133.5	160.7
Others Assets	2127.4	754.1	1095.4	1158.3	1755.9
Profit after tax	479.2	506.9	537.8	539.2	658.8

Source: Annual Reports

The bank has been able to augment its net profit by 22.18% to 658.8 million in the last fiscal year i.e. 2008/09 as compared to Rs.539.2 million as that of the before last year. It was increased regularly during the study period of seven years but the rate of increment varies during the period. The levels of loans and advances have gone up to Rs.8935.4 million from Rs.8143.2 million.

Here, the index analysis on total investment of SC Bank is chosen the FY 2004/05 as the base year. The bank has also the portfolio of investment including loan and advance, government securities and share and debentures. The index of loan and advance, deposit and investment are in increasing almost in all the year, but the increasing rate is fluctuating. The deposit in 2005/06 is decrease by 2.3%, whereas the investment of the same year is also decrease.

4.2.5 Deposits of Standard Chartered Bank Nepal Limited

Table: 4.6
Deposits of Standard Chartered Bank Nepal Limited

(Rs. In Million)

S.N	Purpose	2004/5	2005/6	2006/7	2007/8	2008/9
------------	----------------	---------------	---------------	---------------	---------------	---------------

o						
1	Current	5816.9	4356.3	4681.8	4794.5	6174.6
2	Savings	12771.8	13027.7	14597.5	15244.2	17856.0
3	Fixed	1428.5	1416.4	2136.3	3196.5	3301.1
4	Call Deposits	941.0	294.9	1125.5	919.0	1938.2
5	Others	203.2	248.7	509.4	486.1	474.0
	Total	15835.7	18755.5	21161.4	19335.1	23061.0
	% Growth	2.6	18.4	12.8	-8.6	19.3
	Mean	3167.1	3751.1	4232.3	3867.0	4612.2
	S.D.	3830.3	4468.4	5252.7	5388.9	5804.4
	C.V.%	120.9	119.1	124.1	139.4	125.8

Source: Annual Reports

From the data given in table no. 4.8 above, the growth rate reduced to only 2.6% in the following FY 2004/05. After the tremendous decrease in the growth rate, the growth rate sluggishly went up to 18.4% in FY 2005/06.

This increase in the deposits continued till next FY 2008/09. The increase in deposits and reducing investing opportunities lead the bank in canvassing of interest bearing deposits, which resulted in the negative growth rate of deposit i.e. 8.6% in FY 2004/05 but the deposits again increased by 19.3% reaching Rs.23061.0 million in the fiscal year 2005/06 in going from the first year of the study period i.e. FY 2004/05 when the total deposits was only Rs.15835.7 million. Among the total deposits of the bank, the high interest bearing deposit i.e. the amount of fixed deposits is the least which is a very good sign for the bank as the interest expenses of the bank is very low as compared to other commercial banks of the study which in turn produces huge amount of profit and also allows to grant loans and advances at lower rate being minimum interest expenses.

The C.V calculations show the continuous increase in the deposits of SCBNL.

4.2.6 Deposits, Loans and Investments of Standard Chartered Bank Nepal Limited

The table below shows the relationship between deposits, loans and investment of SCBNL during the study period.

Table 4.7
Deposits, Loans and Investments of SCBNL

Source	2004/5	2005/6	2006/7	2007/8	2008/9
--------	--------	--------	--------	--------	--------

Deposits	15835.7	18755.5	21161.4	19335.1	23061.0
Loans and Advances	5787.9	6080.7	6410.2	8143.2	8935.4
Investments	9276.0	10357.7	11360.3	9702.6	12847.5
Loan to deposits%	36.5	32.4	30.3	42.1	38.7
Investment to deposit %	58.6	55.2	53.7	50.2	55.7
% Growth of Investment	92.4	11.7	9.7	-14.6	32.4
% Growth of Loan and Advance	-2.30	5.06	5.42	27.04	9.73

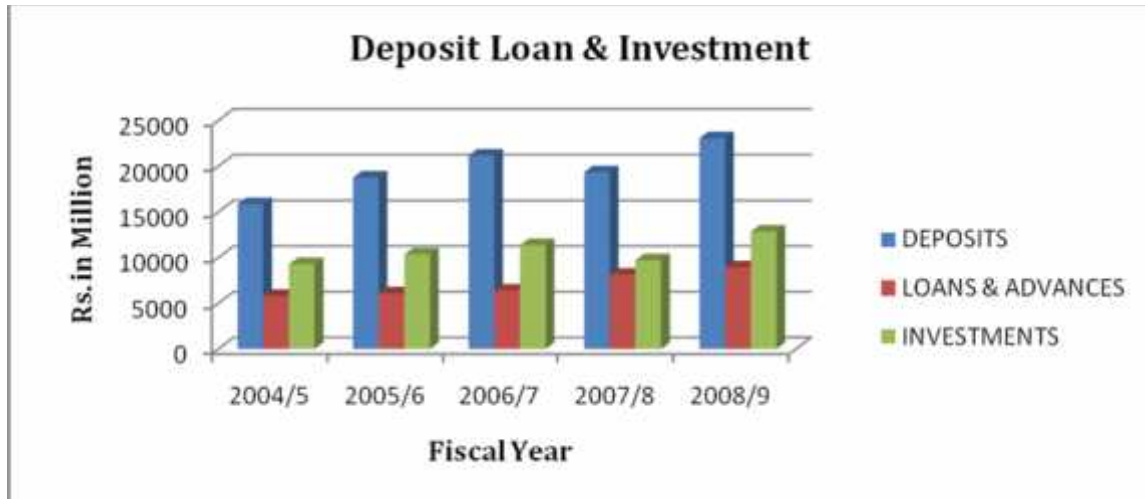
Source: Annual Reports

From the above table it is found that the investment growth rate of SCBNL in the FY 2004/05 is the highest among the increase during the study period. It has highly increased by 92.4%. After FY 2004/05, the rate of increase of investment has gone down to 11.7% and 9.7% in the following two consecutive years. But the investments decreased by -14.6% in the next FY i.e.2007/08 but it again increased by 32.4% in the last year of the study period i.e. 2008/9. This shows the high fluctuation in the investments of the bank during the study period.

The loans and advances have continuously increased during the study period. It has reached Rs. 8935.4 million in the fiscal year 2008/09.

The surplus idle money of the bank is invested in other sectors i.e. treasury bills etc. Here, it is clear that when the loan percentages decrease the investments at that particular period increases. The bank makes it clear in their annual reports that the investing opportunities are reducing, which force them to avoid excess amount of interest bearing deposits.

Fig. 4.3
Deposits, Loans & Investment of SCBNL



The figure shows how the loans and investments go graphically as the percentages of total deposits. It shows the ups and downs of total loan to deposit rate and total investment to deposits in seven years period.

In the growth of investment percentage, there is high fluctuation in the whole study period. The loans to deposit percentages, it is almost constant in the study period. Investment to total deposits percentages is almost constant to FY 2004 to 2009. The investment growth rate shows higher ups and down the study period.

4.2 Financial and Statistical Analysis of Commercial Banks

Financial and statistical analysis is done by calculating some different types of financial and statistical ratios, which are important from the point of view to analyze deposits and loans of NSBL, EBL and SCBNL. Here relevant ratios are calculated and appropriate interpretations are made. The performance of the concern banks are seen by analysis of financial ratios and all the calculations are done in Microsoft Excel.

4.2.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, withdrawals, pay maturity in time and convert non-cash assets into cash to satisfy immediate needs for the preparation of cash budget but liquidity ratios by establishing a relationship between cash and other current assets to current obligations, which provide a guide measure of liquidity.

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

Cash and bank balance to total deposit ratio measures the availability of a bank's highly liquid or immediate funds to meet its unanticipated calls on all types of deposits. Cash and bank balance are assets that constitute the bank's first line of defense and consist of cash in hand, foreign currency cash in hand, cheques and other cash items, balance with domestic banks and balance held abroad.

Higher the ratio, the greater will be the ability of the bank to meet sudden demand of deposit. But every high ratio is not desirable since bank has to pay interest on deposits. This will also maximize the cost of fund to the bank.

We have,

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Cash and bank balance to total deposit ratio of NSBL, EBL and SCBNL from FY 1999/00 to FY 2005/06 are given below in Table no. 4.8

Table no. 4.8
Cash and Bank Balance to Total Deposit

(Rs. In

Million)

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Cash &	Total	Rati	Cash &	Total	Ratio	Cash	Total	Ratios

	Bank Bal.	Deposit	os %	Bank Bal.	Deposit	s %	& Bank Bal.	Deposit	%
2005/06	1331.6	6522.8	20.41	1139.6	6694.9	17.02	3170.0	18755.5	16.90
2006/07	864.4	7198.3	12.01	631.8	7430.8	8.50	4241.8	21161.4	20.04
2007/08	846.9	8654.8	9.79	1620.0	10097.7	16.04	3370.8	19335.1	17.43
2008/09	1481.3	11002.0	13.46	1620.0	13802.4	11.74	3253.5	23061.0	14.11
Mean			19.80			13.1			29.05
S.D.			8.97			4.0			20.34
C.V.%			45.29			30.4			70.03

Source: Annual Reports

From the above table, reveals that cash and bank balance to total deposit ratios of all the banks are fluctuating. NSBL has decreasing trend till 2007/08. The ratio increases from 22.23% to 35.48% in FY 2004/05. The ratio decreases to 25.18% in FY 2004/05 and to 20.41% in FY 2005/06. This decreasing trend remained till FY 2006/07 reaching only 9.79% in the FY 2007/08 but it slightly increased to 13.46% in the final year i.e. 2008/09.

In case of EBL, it is found that cash and bank balance to total deposit ratio is almost same but in comparison, SCBNL has maintained higher ratio. The mean ratio of SCBNL is 29.05%, mean ratio of NSBL is 19.8% and mean ratio of EBL is 13.1%. The C.V. % of NSBL is 45.29%, which is higher than 30.4% of EBL and lower than 70.03% of SCBNL. It shows that the cash and bank balance ratio of SCBNL is more heterogeneous than others.

Comparatively, SCBNL has maintained highest ratio, it shows that the improvement or execute modification on the better position regarding the meeting of the demand of its customers on their deposit at any time. That means it operates in higher risks. Through high ratio indicates its high ability but high ratio shows inefficiency, as it has to pay more interest on deposit. Thus, SCBNL may invest in more productive sectors like short-term marketable security, treasury bills etc. to build up strong and efficient liquidity position.

4.2.1.2 Investment on Government Securities to Current Assets Ratio

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

We have,

$$\text{Investment of Govt. Securities to Current Asset Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

The table given below shows the investment on Govt. Securities to current asset ratio of NSBL, EBL and SCBNL.

Table no. 4.9
Investment on Government Securities to Current Asset Ratio %
(Rs. In Million)

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Inv. On Govt.S	Current Assets	Ratios %	Inv. On Govt.S	Current Assets	Ratios %	Inv. On Govt.S	Current Assets	Ratios %

	ecu.			ecu.					
2005/06	1189.4	7495.3	15.9	1599.4	7942.6	20.1	6722.8	20797.6	32.3
2006/07	1889.6	8378.1	22.6	2466.4	9490.2	26.0	7948.2	22012.3	36.1
2007/08	2588.1	9668.5	26.8	2100.3	11367.6	18.5	7203.1	21216.6	34.0
2008/09	3591.8	12718.8	28.2	3548.6	15621.7	22.7	8644.9	25036.5	34.5
Mean			15.7			19.3			30.5
S.D.			10.4			6.0			5.8
C.V			66.5			31.4			19.1

Source: Annual Reports

The above table shows that all the banks have invested in the government securities throughout the study period. The investment in government securities to current assets ratio of the banks are fluctuating, ratios for EBL shows more fluctuations than NSBL and SCBNL. The ratio of NSBL continuously increased in going from FY 2005/06 to 2008/09. It increased to 3.9% in FY 2004/06 to 5.1%, 7.2%, 15.9%, 22.6%, 26.8% and 28.2% in the following six years. For EBL, the investment on government securities ratio is in increasing trend in going from FY 2005/06 to 2008/09. It has rapid growth i.e. the ratio increased from 7.7% to 16.3% and then to 23.6% in the first three years.

The ratio then decreased to 20.1% in FY 2005/06 and then increased to 26.0% in the next year, but the ratio again decreased to 18.5% in the following year. It then increased to 22.7% in the FY 2006/07. During the study period EBL has maintained the highest ratio of 26.0% in the FY 2004/05. For SCBNL, the investment on government securities ratios is in increasing trend in first five years. It slightly declined to 34.0% in FY 2007/08 from 36.1% in the preceding year. It then slightly increased to 34.5% in the following year i.e. FY 2008/09. Among three banks SCBNL has maintained the highest ratio during whole study period. During the study period SCBNL has maintained the highest ratio of 36.1% in FY 2006/07.

In overall the mean ratio of SCBNL is higher than that of EBL and NSBL i.e., $30.5 > 19.3 > 15.9$. It means SCBNL has invested its as much portion of its current assets. The C.V.% of NSBL is more than that of SCBNL and EBL i.e. $66.5\% > 31.4\% > 19.1\%$,

which means that the variability of ratio of NSBL is less homogenous than that of EBL and SCBNL.

In conclusion, SCBNL has invested more portions of current assets as government securities than EBL and NSBL. Lastly, it is concluded that SCBNL has liquidity portion, from the view point of investment on government securities is slightly poorer.

4.2.1.3 Loans and Advances to Current Assets Ratio

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

To make a high profit mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loans and advances to the customers. If sufficient loans and advances are not granted, it should pay interest on those unutilized fund and may lose some earnings, but high loans & advances may also be harmful to keep the bank in liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan and advances in appropriate level to find out portion of current asset, which is granted as loan and advances.

We have,

$$\text{Loan and Advances to Current Asset Ratio (\%)} = \frac{\text{Loan and Advances}}{\text{Current Asset}}$$

The table below shows the ratio of loan & advances to current asset ratio of NSBL, EBL and SCBNL

Table 4.10
Loans & Advances to Current Assets Ratio %

(Rs. In Million)

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Loan & Advance	Current Assets	Ratios %	Loan & Advance	Current Assets	Ratio %	Loan & Advance	Current Assets	Ratios %
2005/06	4766.1	7495.3	63.6	4908.5	7942.6	68.18	6080.7	20797.6	29.2

2006/07	5143.7	8378.1	61.4	5884.1	9490.2	62.0	6410.2	22012.3	29.1
2007/08	6213.9	9668.5	64.3	7618.7	11367.6	67.0	8143.2	21216.6	38.4
2008/09	7626.7	12718.8	60.0	9801.3	15621.7	62.7	8935.4	25036.5	35.7
Mean			63.6			63.2			32.1
S.D.			4.3			3.2			3.6
C.V			6.8			5.0			11.1

Source: Annual Reports

The above table shows that loans & advances to current asset ratio of NSBL are in fluctuating trend during the study period. It decreased by 60% in FY 2008/09 but it increased to 60.0% in FY 2008/09. Again the ratio moved downward to 63.6% in FY 2005/06 and then to 61.4% in FY 2006/07. Then the ratio increased to 64.3% in FY 2007/08 but declined to 60.0% in the year 2008/09. This shows the high fluctuations in the loans and advances of NSBL. The highest ratio is maintained by NSBL in FY 2007/08 i.e., 64.3% similarly, in case of EBL the loan and advances to current asset ratio is fluctuating during the study period but fluctuation rate is not high as NSBL. The highest ratio of EBL is also maintained in to 68.1% in FY 2005/06 and the lowest ratio is 62.0 in FY 2006/07. The fluctuation rate is higher in SCBNL than others. Its highest ratio is 38.4% in FY2007/08 and lowest ratio is 29.1% in FY 2006/07.

While examining the mean ratio SCBNL has maintained lower ratio of 32.1% than that of NSBL and EBL. On the other hand, coefficient of variance of SCBNL is higher than that of NSBL and EBL, which indicate that high consistency of EBL's ratios in comparison of others.

Finally, it can be said that banks are not poor to mobilize their funds as loan and advances to current asset. The mean ratio of NSBL is higher; it reveals that their liquidity position with regard to this ratio is satisfactory.

4.2.2 Asset Management Ratio

Asset management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets properly to make high profit.

4.2.2.1 Loan and Advances to Working Fund Ratio

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

We have,

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

The table below shows the loan and advances to total working fund ratio of NSBL, EBL and SCBNL.

Table: 4.11
Loan and Advances to Working Fund Ratio

(Rs. In

Million)

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Loan & Advance	Total Working Fund	Ratio %	Loan & Advance	Total Working Fund	Ratios %	Loan & Advance	Total Working Fund	Ratios %
2005/06	4766.1	8000.6	59.6	4908.5	8052.2	61.0	6080.7	22309.1	27.3
2006/07	5143.7	8440.4	60.9	5884.1	9608.6	61.2	6410.2	23642.1	27.1

2007/08	6213.9	10345.4	60.1	7618.7	11732.5	64.9	8143.2	21893.6	37.2
2008/09	7626.7	13035.8	58.5	9801.3	15959.3	61.4	8935.4	25776.3	34.7
Mean			61.5			61.6			30.0
S.D.			4.3			3.2			4.2
C.V			7.0			5.2			13.9

Source: Annual Reports

Referring to the above table, the loan & advances to total working fund ratios of all banks are exhibits fluctuating trend. The ratio of NSBL and EBL are higher than SCBNL. EBL has highest ratio of 64.9% in FY 2007/08 and lowest of 27.1% in FY 2006/07 during the study period of SCBNL. Similarly, the highest ratio for NSBL is 64.9% in FY 2007/08 of EBL and lowest is 27.1% in FY 2006/07 of SCBNL. SCBNL has the comparatively lower rate then NSBL and EBL. It has highest ratio of 37.2% in FY 2007/08 and lowest ratio in of 27.1% in 2004/05. The entire bank's ratios are continuously fluctuating. NSBL has the highest ratio of loan and advances to total working fund ratio.

In average, NSBL has maintained slightly higher loan and advances to total working fund ratio than EBL and SCBNL i.e., 61.5%>61.6%>29.5%. There is no much differences in the position of first two banks. The coefficient of variation of SCBNL is greater than that of NSBL and EBL i.e., 13.9%>7.0%>5.2%. It shows that loan and advances to working fund ratio of SCBNL is more variable than others.

From the above analysis, it is concluded that all the banks have mobilizing working fund, as loan and advances is satisfactory.

4.2.2.2 Investment on Government Securities to Total Working Fund Ratio

All the fund of the bank is never used as loan and advances. A bank mobilizes its fund in various ways. To some extend commercial banks seems to utilize its fund by purchasing Government Securities. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as invest on government securities and vice versa.

We have,

Investment on Govt. securities to Working Fund Ratio

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

Investment on government securities to total working fund ratio of NSBL, EBL and SCBNL from FY 2005/06 to 2008/09 are given in the table below.

Table: 4.12
Investment on Government Securities to Total Working Fund Ratio

(Rs. In Million)

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Investment on Govt. Sec	Total Working Fund	Ratios %	Investment on Govt. Sec	Total Working Fund	Ratios %	Investment on Govt. Sec	Total Working Fund	Ratios %
2005/06	1189.4	8000.6	14.9	1599.4	8052.2	19.9	6722.8	22309.1	30.1
2006/07	1889.6	8440.4	22.4	2466.4	9608.6	25.7	7948.2	23642.1	33.6
2007/08	2588.1	10345.4	25.0	2100.3	11732.5	17.9	7203.1	21893.6	32.9
2008/09	3591.8	13035.8	27.6	3548.6	15959.3	22.2	8644.9	25776.3	33.5
Mean			15.1			18.8			28.6
S.D.			10.0			5.9			6.0
C.V			66.3			31.6			21.0

Source: Annual Reports

From the above table, it is observed that investment on government securities to working fund ratio for NSBL was 14.9% in FY 2003/04, which increased to 27.6% in FY 2008/09. In FY 2004/05 it again increased to 7.2%. There is continuous increase in the ratio and reaches to 27.6% in FY 2005/06. It was 14.9%, 22.4% and 25.0% in the previous three years i.e. 2006/07, 2007/08 and 2008/09 respectively.

For EBL, there is continuous fluctuation in the investment on government securities to working fund ratio. In FY 2005/06 had the ratio of 19.9%, which increased to 25.7% and In FY 2005/06 the ratio decreased to 19.9% but it again increased to 25.7% in the next FY 2008/09. The ratio then drastically decreased to 17.9% in the FY 2007/08 but increased to 22.2% in the last FY of the study period i.e. 2008/09. From this we can conclude that the ratio of the EBL is fluctuating.

SCBNL has the continuous increasing trend of this ratio and has maintained the highest ratio among the three banks of the study. The ratio is in the continuous increasing trend except in the FY 04/05, it has slightly decreased from 33.6% to 32.9% than that in the preceding FY. The ratio is only 30.1% in FY 2004/05 which continuously increases and reaches to 33.6% in FY 2006/07. After slightly decreasing in FY 2007/08 it again increased to 32.9%.

In average, SCBNL has maintained highest mean value among the three banks and EBL has maintained higher than that of NSBL i.e. the ratios are $28.6\% > 18.8\% > 15.1\%$, which indicates that the position of SCBNL is better in this regard. The coefficient of variation for NSBL is higher than both banks. The coefficient of variation of NSBL is 66.3%, and that of EBL and SCBNL are respectively 31.6% and 21.0%. So, it is more variable than others.

4.2.2.3 Investment on Shares and Debentures to Total Working Fund Ratio

Commercial banks are investing into shares and debentures of other companies. Though, the investment in government securities is relatively safer than investment in shares and debentures of other company. Investment on shares and debentures to total working fund ratio shares to what extent the bank has successfully invested its asset on other company's debentures and shares to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on shares and debentures.

We have,

Investment on Shares & Debentures to Total working Fund Ratio

$$= \frac{\text{Investment on shares \& Debenture}}{\text{Total Working Fund}}$$

Table 4.13

Investment on Shares and Debentures to Total Working Fund Ratio %

(Rs. In
Million)

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Investment on Share & debt.	Total Working Fund	Ratio	Investment on Share & debt.	Total Working Fund	Ratio	Investment on Share & debt.	Total Working Fund	Ratio
2005/06	17.9	8000.6	0.22	17.1	8052.2	0.21	11.2	22309.1	0.05
2006/07	17.9	8440.4	0.21	17.6	9608.6	0.18	11.2	23642.1	0.05
2007/08	19.4	10345.4	0.19	19.6	11732.5	0.17	13.3	21893.6	0.06
2008/09	19.9	13035.8	0.15	19.6	15959.3	0.12	15.3	25776.3	0.06
Mean			0.19			0.14			0.06
S.D.			0.05			0.05			0.01

C.V			24.3			38.68			9.86
-----	--	--	------	--	--	-------	--	--	------

Source: Annual Reports

From the above table it is found that the investment on shares and debentures to total working fund ratios for all the banks are in fluctuating trend. NSBL has the lowest ratio of 0.15% in 2008/09 and highest ratio of 0.21% in 2006/07. In other years the ratio remained around 0.2%. The ratio is 0.17%, 0.22%, 0.21%, 0.19% and 0.15% in the FY 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, for EBL, the highest ratio is 1.32% in 2001/02 and lowest is 0.07% in 2003/04 and 2004/05. During the other years of the study period the ratio remained around 0.2%. It is 0.21%, 0.18%, 0.17% and 0.12% in the FY 2005/06, 2006/07, 2007/08 and 2008/09 respectively. SCBNL has maintained a constant ratio of 0.5% and 0.6%.

In the first year of the study period i.e. 2007/08, it is 0.06% and it slightly declined to 0.05% in the following FY i.e. 2005/06. It then again reached at the same point as in the previous year i.e. 0.6% in FY 2002/03. It then again came down to 0.05% and remained the same in the following two years i.e. 2005/06 and 2006/07. But it again went up to 0.06% and remained same for consecutive two years i.e. 2007/08 and 2008/09.

In average, SCBNL has maintained lowest investment on shares and debentures to total working fund ratio and NSBL has the highest ratio. The coefficient of variation of EBL is 38.68% which is comparatively higher than 24.38% of NSBL and 9.86% of SCBNL. It means EBL is very less stable, more variable and less consistent than NSBL and SCBNL.

4.2.3 Profitability Ratio

The major objective of all commercial banks is to earn profit. Strictly speaking no bank can survive without profit. Profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investments to different kinds. Sufficient profit is most to have good liquidity, grab investment opportunities, expand banking transactions, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for a bank. Profitability ratios measure the efficiency of a bank. Higher the ratio higher will be the efficiency of bank.

Following ratios, which are related with profit and fund mobilizing, is only studied under this heading.

4.2.3.1 Return on Loan and Advances Ratio

It measures the earning capacity of a commercial banks on its deposits mobilized on loans and advances. Mostly loan and advances includes loan cash credit, overdraft, demand loans, terms loans, bills purchased and discounted.

We have,

The table below shows the return on loans and advances of NSBL, EBL and SCBNL.

Table 4.14
Return on Loan & Advances Ratio %

(Rs. In

Million)

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Net Profit	Loan and Advances	Return %	Net Profit	Loan and Advances	Return %	Net Profit	Loan and Advances	Return %
2005/06	48.7	4766.1	1.0	94.2	4908.5	1.9	506.9	6080.7	8.3
2006/07	60.9	5143.7	1.2	143.6	5884.1	2.4	537.8	6410.2	8.4
2007/08	57.4	6213.9	0.9	168.2	7618.7	2.2	536.2	8143.2	6.6
2008/09	117.0	7626.7	1.5	237.3	9801.3	2.4	658.8	8935.4	7.4
Mean			1.0			2.2			7.7
S.D.			0.4			0.2			0.7
C.V			39.1			11.0			8.8

Source: Annual Reports

The above table clearly shows that the return on loans and advances ratio of NSBL is highly fluctuating. There is no consistency during the study period. The return on loan and advances in 2007/08 the ratio went up to 0.9% and it again slightly went up to 1.0% and to 1.2% in following FY 2005/06 and 2006/07 respectively. Then after it declined to 0.9% in the next FY 2007/08 but it again highly rose to 1.5% in the last year of the study

period i.e. FY 2008/09. This analysis depicts that EBL is really facing the problems in investing their excess funds in profitable loans and advances.

Similarly, for EBL the return on loans and advances is highest in the FY 2006/07 and 2008/09 of 2.4% and the lowest in the FY 2007/08 of 1.8%. It increased to 2.3% in the following year i.e. 2004/05 and then declined to 2.1% in the next year i.e. 2004/05 and then to 1.9% in FY 2005/06. It then reaches to highest point i.e. 2.4% in the FY 2006/07 and then it slightly declined to 2.2% in FY 2007/08 and again reached the same point i.e. 2.4% in the following FY i.e. 2008/09. This concludes that EBL is also not uniform in maintaining its return from loans and advances.

In case of SCBNL, the return on loans and advances remained in between 6.6% and 8.4% during the study period. It is at the highest point in FY 2006/07 i.e. 8.4% and the lowest point in FY 2007/08 i.e. 6.6%. In other years it lies in between the above mentioned range of 6.6% to 8.4%. It is at 7.9% in the initial year of the study period i.e. 2002/03. It remained at 8.3% in two consecutive years i.e. in FY 2004/05 and 2005/06. It then reached at the highest point of 8.4% in FY 2006/07 and the lowest point i.e. 6.6% in the FY 2007/08 but it increased to 7.4% at the end of the study period i.e. 2008/09.

In average, the mean ratio for SCBNL is more than that of EBL and NSBL i.e. $7.7\% > 2.2\% > 1.0\%$. The coefficient of variation of NSBL is more than that of EBL and SCBNL i.e. $39.1 > 11.0 > 8.8$. This shows that SCBNL's ratios are more consistent and uniform than NSBL and EBL.

4.2.4 Risk Ratio

The possibility of risk makes the banks investment a challenging task. Bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. A bank has to take high risk if it expects high return on its investment. So, the banks operating for high profit, has to accept the risk and manage it efficiently. Though, following ratio effort has been made to measure the level of risk of credit.

4.2.4.1 Credit Risk Ratio

It is very essential for a bank to scrutinize two projects i.e., the risk involved in it to avoid default of non-payment of loan before making investment on them. Banks makes investment by utilizing its collected funds. The risk behind making investment or granting loan or providing is measured by credit risk ratio. Actually credit risk ratio

shows the proportion of non-performing assets in total loan and advances of a bank. But due to unavailability of related data, the ratio is calculated with the help of loan & advances and total assets.

We have,

$$\text{Credit risk ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Assets}}$$

The following table shows the comparative credit risk ratio of NSBL, EBL and SCBNL for the FY 2005/06 to 2008/09.

Table 4.15
Credit Risk Ratio %

(Rs. In Millions)

Fiscal Year	Nepal SBI Bank Limited			Everest Bank Limited			Standard Chartered Bank Nepal Ltd.		
	Loan & Advance	Total Assets	Ratios %	Loan & Advance	Total Assets	Ratios %	Loan & Advance	Total Assets	Ratios %
2005/06	4766.1	8000.6	56.4	4908.5	8052.2	57.4	6080.7	22309.1	27.7
2006/07	5143.7	8440.4	66.1	5884.1	9608.6	58.8	6410.2	23642.1	29.4
2007/08	6213.9	10345.4	59.6	7618.7	11732.5	61.1	8143.2	21893.6	27.3
2008/09	7626.7	13035.8	67.1	9801.3	15959.3	61.4	8935.4	25776.3	25.7
Mean			62.2			61.3			29.5
S.D.			4.9			3.2			4.0
C.V			7.9			5.3			13.4

Source: Annual Reports

The above table shows that NSBL has maintained the highest credit ratio among the three banks. It has maintained a highest ratio of 68.6% in FY 2004/05 and lowest of 56.4% in FY 2005/06. It has followed the fluctuating trend during the study period. Similarly, the credit ratio of EBL is also showing fluctuating trend. It has maintained a highest ratio of 66.5% and the lowest ratio of 57.4% in the FY 2004/05 and 2005/06 respectively. But the Ratio of SCBNL is in the decreasing trend. It was 36.9% in FY 2004/05 and 25.7% in 2008/09.

The mean ratios for NSBL and EBL are almost similar but the ratio of SCBNL is very low then others. The mean ratio of NSBL is 62.2%, which, is slightly greater than that of EBL i.e., 61.3%. It is only 29.5% in case of SCBNL. The C.V. ratio of SCBNL is greatest and that of EBL the lowest among the three banks i.e., 13.4% > 7.9% > 5.3%, which indicates that the credit stability of SCBNL is inconsistent than EBL and NSBL.

4.3 Co-efficient of Correlation Analysis Analysis

To find out the relationship between deposit and total investment, deposit and loan and advances, this analysis have been used of Karl Pearson's coefficient of correlation.

4.3.1 Co-efficient of Correlation and Regression Between Deposits and Total Investment

The co-efficient of correlation between deposit and investment is to measure the degree of relationship between two variables. In correlation analysis, deposit is independent variable (x) and total investment is variable (y), the purpose of computing co-efficient of correlation is to justify whether the deposit are significantly used or not.

Regression Analysis is used in the estimation of the strength of the relationship between deposit and loan and advances.

The following table no. 4.22 shows the co-efficient of correlation between deposits and total investment for NSBL, EBL and SCBNL.

Table 4.16
Co-efficient of Correlation between deposit and total investment

Banks	Evaluation Criterions		
	R	P. Er.	6 P. Er.
NSBL	0.951	0.036	0.216
EBL	0.941	0.043	0.258
SCBNL	0.893	0.077	0.461

From the above table, it is found that the coefficient of correlation between deposit (independent) and total investment (dependent) variables 'r' is 0.951 which shows positive correlation for NSBL. The value of r is much higher than the value of 6P.Er. ie, 0.216, this shows that the relationship between the deposit and total investment of NSBL is significant.

In case of EBL, coefficient of correlation between deposits and total investment value of 'r' is 0.941. It shows positive relationship between two variables. By considering the probable error since the value of 'r' i.e., 0.941 is more than six times of P.Er. i.e., 0.258 so, we can say that there is significant relationship between total deposits and total investment.

Likewise, SCBNL has also positive relationship between two variables, i.e. 0.893. The value of 'r' is more than the value of 6P.Er. I.e.0.461, this shows that the relationship between the deposit and total investment of SCBNL is significant.

4.3.2 Co-efficient of Correlation and Regression Analysis between Deposit and Loan and Advances

Deposits play a very crucial role in performance of commercial banks and similarly loan and advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (x) and loan & advances are dependent variable (y).

The following table shows the correlation between deposit and loan and advances of NSBL, EBL and SCBNL.

Table 4.17
Correlation between deposit and Loan and advances

Banks	Evaluation Criteria		
	R	P.Er.	6 P.Er.
NSBL	0.972	0.021	0.125
EBL	0.995	0.004	0.024
SCB	0.825	0.121	0.726

From the table, it is found that the coefficient of correlation between deposits and loan and advances of NSBL is 0.972. It shows positive relationship between two variables. Further, value of P.Er. is 0.021 and 6P.Er. is 0.125; it shows that the value of 'r' is greater than the value of 6P.Er. Which reveals that there is significant relationship between deposit and Loan & Advances in case of NSBL?

In case of EBL, it is found that coefficient of correlation between deposit and loan & advances is 0.995. It shows positive relationship between two variables. The value of 'r' (0.995) is greater than the value of 6P. Er. i.e. 0.024, which shows the significant relationship between deposit and loan & advances of EBL.

Likewise, it is found that the coefficient of correlation between deposit and loan and advances of SCBNL is 0.825. It also shows the positive relationship between two variables. The value of 'r' is greater than the value of 6P.Er. i.e., 0.726, which reveals that there is significant relationship between Deposits and loans and advances in case of SCBNL.

4.4 Regression Analysis

Regression is statistical tools which are used to determine the statistical relationship between two or more variables and so make estimate of one variable on the basis of the other variable. Regression is the line which gives the best estimate of one variable for any given value of the other value. The regression line of Y on X estimate the most probable value of Y for given values of X.

X is independent variable

Y is dependent variable

The regression equation of Y on X expressed as $Y = a + bx$

Where,

A and b are parameters of the line.

To find out the exact relationship between different variables simple regressions analysis has been done and results of the analysis have been tabulated

Table 4.18
Calculation of Regression Equation Between Net profits on Total deposits

Banks	Regression equations	Value(a) Constant	Regression Coefficient (b)
NSBL	$Y = -25.1789 + 0.0112479 x$	$a = -25.1789$	$B = 0.0112479$
EBL	$Y = -13.6838 + 0.0182983 x$	$A = -13.6838$	$B = 0.0182983$
SCBNL	$Y = 98.30463 + 0.0226260x$	$a = 98.30463$	$B = 0.0226260$

Source: Appendix c

The above table is the collection of major outputs of simple regression analysis of net profit on total deposit.

The regression equation of net profit (Y) dependent variable on total deposit(X) independent variable $Y = -25.1789 + 0.0112479 x$ in NSBL is negative but coefficient of equation is positive i.e. $b = 0.0112479$ which indicates the positive relationship between net profit on total deposit or it can be defined that one million increase in total deposit leads to average 0.0112479 million increase in net profit. The value of constant (a) is comparatively lower. Similarly in case of EBL the regression coefficient is positive or in other words one million increases in total deposit leads to average about 0.0182983 million increase in net profit. The value of constant (a) is relatively lower than SCBNL and higher than NSBL. The regression equation of SCBNL is positive and its constant (a) and coefficient (a) is positive. It means that one million increase in total deposit leads to an average about 0.0226260 increases in net profit. Regression coefficient reveals that the positive relationship between net profit and total deposit.

Table 4.19
Calculation of Regression equation between Net Profit on Total investment

Banks	Regression equations	Value (a) Constant	Regression Coefficient (b)
NSBL	$Y = 24.17888 + 0.0209158 x$	$a = 24.17888$	$b = 0.0209158$
EBL	$Y = 22.045309 + 0.0512403 x$	$a = 22.045309$	$b = 0.0512403$
SCBNL	$Y = 305.88847 + 0.0227019 x$	$a = 305.88847$	$b = 0.0227019$

The above table is the collection of major outputs of simple regression analysis of net Profit on total investment.

The regression equations of net profit and total investment in NSBL, is positive, in other words, Constant (a) and coefficient (b) are positive in NSBL. In other words, one million increase in total investment leads to average 0.0209158 million increases in net profit. The value of (a) is relatively low, the value of (a) indicates that if total investment is 0 then the value of net profit is 24.17888 million. So from analysis it shows that the net profit will be increase, the total investment also increases.

Regression equation of EBL is also positive, which indicates that the one million increase in total investment leads to an average about 0.0512403 million increases in net profit. The value of constant (a) is relatively high.

In the case of SCBNL, Its regression line also positive, in other words, one million increase in total investment leads to average about 0.0227019 million increases in net profit.

Table 4.20
Calculation of Regression equation between Total Investments on Total Deposit

Banks	Regression equations	Value Constant (a)	Regression Coefficient (b)
NSBL	$Y = -2617.5571 + 0.57377x$	a= -2617.5571	b= 0.57377
EBL	$Y = -473.59681 + 0.326476 x$	a=-473.59681	b= 0.326476
SCBNL	$Y = -7143.5792 + 0.885656 x$	a =-7143.5792	b=0.885656

The above Table is the collection of major output of simple regression analysis of total investment on total deposit.

The regression equation of total investment (Y) dependent variable on total deposit (X) independent variable $Y = 2617.5571 + 0.57377x$ in NSBL is positive i.e. 0.57377 which indicates the positive relationships exists between total investment and total deposit or it can be said that one million increase in total deposit leads to average about average 0.57377 million increases in total investment. The value of constant (a) is negative and relatively low. Similarly EBL and SCNBL, the regression coefficients are

positive or in other words one million increases in total deposit leads to increase in average 0.326476 and 0.885656 million in total investment respectively.

The value of constant (a) indicates that the total investment can be increased and total deposits also increase. The regression coefficient is positive which reveals that the positive relationship between total investment and total deposit.

From the test of “ t “ statistics it can be concluded that in all regression cases the results are not statistically significant at 5% level of significance since the value of t is smaller than tabulated value.

4.5 Test of Hypothesis

4.5.1 Test of Hypothesis on Cash and Bank Balance to Total Deposits Ratio

To test the ratios of cash and bank balance to total deposits, T-test has been used.

Table 4.21
Cash and Bank balance to Total Deposits Ratios Between NSBL, EBL and SCBNL

Fiscal Year	NSBL			EBL			SCBNL		
	x_1	X_1	X_1^2	x_2	X_2	X_2^2	x_3	X_3	X_3^2
2005/6	20.41	0.62	0.38	17.02	3.95	15.6	16.9	-12.14	147.38
2006/7	12.01	-7.78	30.53	8.5	-4.57	20.89	20.04	-9	81
2007/8	9.79	-10	100	16.04	2.97	8.82	17.43	-11.61	134.79
2008/9	13.46	-6.33	40.07	11.74	-1.33	1.77	14.11	-14.93	222.9
Total	55.67	-23.49	170.98	53.3	1.02	47.08	68.48	-47.68	586.07

$$\bar{X}_1 = \frac{\sum x_1}{n}$$

$$= 55.67/4$$

$$= 13.9175$$

$$\bar{X}_2 = \frac{\sum x_2}{n}$$

$$= 53.3/4$$

$$= 13.325$$

$$\bar{X}_3 = \frac{\sum x_3}{n}$$

$$= 68.48/4$$

$$= 17.12$$

Again,

$$\sum (X_1 - \bar{X}_1)^2$$

$$\sum (X_2 - \bar{X}_2)^2$$

$$\sum (X_3 - \bar{X}_3)^2$$

4.5.1.1 Test of Significance Difference Between NSBL and EBL

To test the significant relationship, T-test has been used.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{sp^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$sp^2 = \frac{1}{n_1 + n_2 - 2} \left(\sum x_1^2 + \sum x_2^2 \right) \quad \text{with degree of frequency} = n_1 + n_2 - 2$$

$$= \frac{1}{4 + 4 - 2} \left(170.98 + 47.08 \right)$$

$$= 36.3433$$

Now, Test Statistics under H_0 is,

$$t = \frac{13.9175 - 13.325}{\sqrt{36.3433 \left(\frac{1}{4} + \frac{1}{4} \right)}}$$

$$= 0.139$$

with degree of frequency = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

The Calculated Value of t = 0.139

The tabulated Value of t at $\alpha = 0.05$ level of significance for two tailed test and for 6

degree of freedom is 2.447 i.e. $t_{0.05}(6) = 2.447$

Decision:

Since the calculated value of t i.e., 0.139 is less than the tabulated value i.e. 2.447, the null hypothesis is accepted. This means there is no significant difference between mean ratio of cash and bank balance to total deposit of NSBL and EBL.

4.5.1.2 Test of Significance Difference Between NSBL and SCBNL

To test the significant relationship between NSBL and SCBNL, T-test has been used.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{sp^2 \left(\frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

where,

$$sp^2 = \frac{1}{n_1 + n_3 - 2} \left(\sum x_1^2 + \sum x_3^2 \right)$$

$$= \frac{1}{4 + 4 - 2} (70.98 + 586.07)$$

$$= 126.175$$

Now, test statistics is,

$$t = \frac{13.9175 - 17.12}{\sqrt{126.175 \left(\frac{1}{4} + \frac{1}{4} \right)}}$$

$$= -0.40$$

The calculated value of $t = -0.40$

With degree of freedom = $n_1 + n_3 - 2 = 4 + 4 - 2 = 6$

The Tabulated value of t at 5% confidence level of significance for $(n_1 + n_3 - 2)$ degree of freedom in a two tailed test is 2.447 i.e. $t_{0.05}(6) = 2.447$

Decision:

Since the calculated value of t i.e., -0.40 is less than the tabulated value 2.447, the null hypothesis is accepted i.e. there is no significant difference between mean ratio of cash & bank balance to Total deposit of NSBL and SCBNL.

4.5.2 Test of Hypothesis on Investment on Government Securities to Current Assets Ratio

To test the ratios of investment on government securities to current assets, T-test has been used

Table 4.22
Investment on government securities to current assets ratios between NSBL, EBL
and SCBNL

Fiscal Year	NSBL			EBL			SCBNL		
	X ₁	X ₁	X ₁ ²	X ₂	X ₂	X ₂ ²	X ₃	X ₃	X ₃ ²
2005/6	15.9	0.23	0.05	20.1	0.83	0.69	32.3	1.79	3.2
2006/7	22.6	6.93	48.02	26	6.73	45.29	36.1	5.59	31.25
2007/8	26.8	11.13	123.88	18.5	-0.77	0.59	34	3.49	12.18
2008/9	28.2	12.52	157	22.7	3.43	11.76	34.5	3.99	15.92
Total	93.5	30.81	328.95	87.3	10.22	58.33	136.9	14.86	62.55

$$\begin{aligned} \bar{X}_1 &= \frac{\sum X_1}{n} = \frac{93.5}{4} = 23.38 \\ \bar{X}_2 &= \frac{\sum X_2}{n} = \frac{87.3}{4} = 21.83 \\ \bar{X}_3 &= \frac{\sum X_3}{n} = \frac{136.9}{4} = 34.23 \end{aligned}$$

Again, $\sum X_1 X_1 Z \bar{X}_1$ $\sum X_2 X_2 Z \bar{X}_2$ $\sum X_3 X_3 Z \bar{X}_3$

4.5.2.1 Test of Significance Difference Between NSBL and EBL

To test the significant relationship between NSBL and EBL under Statistical tool, T-test has been used.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{sp^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$sp^2 = \frac{\sum X_1^2 - \frac{(\sum X_1)^2}{n_1} + \sum X_2^2 - \frac{(\sum X_2)^2}{n_2}}{n_1 + n_2 - 2}$$

with degree of frequency = $n_1 + n_2 - 2$

$$\begin{aligned} &= \frac{1}{4 + 4 - 2} \{ 328.95 - \frac{(93.5)^2}{4} + 58.33 - \frac{(87.3)^2}{4} \} \\ &= 30.13 \end{aligned}$$

Now, Test Statistics under H_0 is,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{sp^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$= 0.399$$

with degree of freedom = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

The Calculated Value of t = 0.399

The tabulated Value of t at $\alpha = 0.05$ level of significance for two tailed test and for 6 degree of freedom is 2.447 i.e. $t_{0.05}(6) = 2.447$

Decision:

Since the calculated value of t i.e. 0.399 is less than the tabulated value i.e. 2.447, the null hypothesis is accepted. This means there is no significant difference between mean ratio of Investment on government securities to current assets of NSBL and EBL.

4.5.2.2 Test of Significance Difference Between NSBL and SCBNL

To test the significant relationship between NSBL and SCBNL,

T-test has been used.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{sp^2 \left(\frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

where,

$$sp^2 = \frac{1}{n_1 + n_3 - 2} \left(\sum x_1^2 - \frac{\sum x_1^2}{n_1} + \sum x_3^2 - \frac{\sum x_3^2}{n_3} \right)$$

$$= \frac{1}{4 + 4 - 2} \left(328.95 - \frac{62.55^2}{4} \right)$$

$$= 65.25$$

Now, test statistics is,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{65.25 \left(\frac{1}{4} + \frac{1}{4} \right)}}$$

$$= -1.90$$

The calculated value of $t = -1.90$

With degree of freedom = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

The Tabulated value of at 5% confidence level of significance for $(n_1 + n_2 - 2)$ degree of freedom in a two tailed test is 2.447 i.e. $t_{0.05}(6) = 2.447$

Decision,

Since the calculated value of t i.e., -1.90 is less than the tabulated value 2.447, the null hypothesis is accepted i.e. there is no significant difference between mean ratio of Investment on government securities to current assets of NSBL and SCBNL.

4.5.3 Test of Hypothesis on Total Investment to Total Deposit Ratio

To test the ratios of Total investment to total deposit of NSBL, EBL and SCBNL, T-test has been use.

Table 4.23
Total investment and total deposit ratios between NSBL, EBL and SCBL

Fiscal Year	NSBL			EBL			SCBNL		
	X_1	X_1	X_1^2	X_2	X_2	X_2^2	X_3	X_3	X_3^2
2005/6	18.51	0.31	0.1	24.71	0.49	0.24	55.22	7.89	62.33
2006/7	26.5	8.3	68.88	34.12	9.9	98.09	53.68	6.35	40.37
2007/8	30.13	11.93	142.27	21.08	-3.14	9.84	50.18	2.85	8.13
2008/9	32.82	14.62	213.73	30.43	6.21	38.6	55.71	8.38	70.24
Total	107.96	35.16	424.98	110.34	13.46	146.77	214.79	25.47	181.07

$$\bar{X}_1 = \frac{\sum X_1}{n}$$

$$= \frac{107.96}{4}$$

$$= 26.99$$

$$\text{Again, } \sum X_1^2 = \sum x_1^2 = \sum \bar{X}_1^2$$

$$\bar{X}_2 = \frac{\sum X_2}{n}$$

$$= \frac{110.34}{4}$$

$$= 27.58$$

$$\sum X_2^2 = \sum x_2^2 = \sum \bar{X}_2^2$$

$$\bar{X}_3 = \frac{\sum X_3}{n}$$

$$= \frac{214.79}{4}$$

$$= 53.70$$

$$\sum X_3^2 = \sum x_3^2 = \sum \bar{X}_3^2$$

4.5.3.1 Test of Significance Difference Between NSBL and EBL

To test the significant relationship between NSBL and EBL under Statistical tool, T-test has been done.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{sp^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

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

with degree of frequency = $n_1 + n_2 - 2$

$$= \frac{1}{4 + 4 - 2} [424.98 - \frac{146.77^2}{4} + 146.77^2 - \frac{146.77^2}{4}]$$

$$= 95.29$$

Now, Test Statistics under H_0 is,

$$t = \frac{26.99 - 27.58}{\sqrt{95.29 \left(\frac{1}{4} + \frac{1}{4} \right)}}$$

$$= -0.081$$

with degree of frequency = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

The Calculated Value of t = -0.081

The tabulated Value of t at $\alpha = 0.05$ level of significance for two tailed test and for 6 degree of freedom is 2.447 i.e. $t_{0.05}(6) = 2.447$

Decision,

Since The calculated value of t i.e., -1.079 is less than the tabulated value i.e. 1.782, the null hypothesis is accepted. This means there is no significant difference between mean ratio of total investment to total deposit of NSBL and EBL.

4.5.3.2 Test of Significance Difference Between NSBL and SCBNL

To test the significant relationship between NSBL and SCBNL, T-test has been used.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{sp^2 \left(\frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

where,

$$\begin{aligned} sp^2 &= \frac{1}{n_1 + n_3 - 2} \left(\sum x_1^2 + \sum x_3^2 - \frac{(\sum x_1)^2}{n_1} - \frac{(\sum x_3)^2}{n_3} \right) \\ &= \frac{1}{4 + 4 - 2} (424.98 + 181.07 - \frac{26.99^2}{4} - \frac{47.70^2}{4}) \\ &= 101.008 \end{aligned}$$

Now, test statistics is,

$$\begin{aligned} t &= \frac{26.99 - 47.70}{\sqrt{101.008 \left(\frac{1}{4} + \frac{1}{4} \right)}} \\ &= -3.758 \end{aligned}$$

The calculated value of $t = -3.758$

With degree of freedom = $n_1 + n_3 - 2 = 4 + 4 - 2 = 6$

The Tabulated value of at 5% confidence level of significance for $(n_1 + n_3 - 2)$ degree of freedom in a two tailed test is 2.447 i.e. $t_{0.05}(6) = 2.447$

Decision,

Since the calculated value of t i.e., -3.758 is less than the tabulated value 2.447, the null hypothesis is accepted i.e. there is no significant difference between mean ratio of total investment to total deposit of NSBL and SCBNL

4.5.4 Test of Hypothesis on Investment on Government Securities to Total Working Fund Ratio

To test the ratios of Investment on government securities to total working fund of NSBL, EBL and SCBNL, T-test has been used. By analysis of this ratio shows that how

bank has investment safe from default risk. It defines, what portion of investment are invested in government securities. It compares sample bank investment in government securities. To find out some major hints, analysis has been done.

Table 4.24
Investment on government securities to total working fund ratios Between NSBL, EBL and SCBNL

Fiscal Year	NSBL			EBL			SCBNL		
	X ₁	X ₁	X ₁ ²	X ₂	X ₂	X ₂ ²	X ₃	X ₃	X ₃ ²
2005/6	14.90	-0.20	0.04	19.9	1.09	1.19	30.10	1.50	2.25
2006/7	22.40	7.30	53.29	25.7	6.89	47.47	33.6	5	25
2007/8	25	9.90	98.01	17.9	-0.91	0.81	32.9	4.3	18.49
2008/9	27.60	12.50	156.25	22.2	3.39	11.49	33.5	4.9	24.01
Total	89.9	29.5	307.59	85.7.70	10.46	60.96	130.1	15.7	69.75

$$\begin{aligned} \bar{X}_1 &= \frac{\sum x_1}{n} \\ &= \frac{89.9}{4} \\ &= 20.47 \end{aligned}$$

$$\begin{aligned} \bar{X}_2 &= \frac{\sum x_2}{n} \\ &= \frac{85.7}{4} \\ &= 21.42 \end{aligned}$$

$$\begin{aligned} \bar{X}_3 &= \frac{\sum x_3}{n} \\ &= \frac{130.1}{4} \\ &= 32.5 \end{aligned}$$

Again,

$$\sum X_1 X x_1 Z \bar{X}_1$$

$$\sum X_2 X x_2 Z \bar{X}_2$$

$$\sum X_3 X x_3 Z \bar{X}_3$$

4.5.4.1 Test of Significance Difference Between NSBL and EBL

To test the significant relationship between NSBL and EBL, T-test has been used.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{sp^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$sp^2 = \frac{1}{n_1 + n_2 - 2} \left[\sum_{i=1}^{n_1} (x_i - \bar{x})^2 + \sum_{j=1}^{n_2} (y_j - \bar{y})^2 \right]$$

with degree of frequency = $n_1 + n_2 - 2$

$$= \frac{1}{4 + 4 - 2} [307.59 + 60.96]$$

$$= 61.43$$

Now, Test Statistics under H_0 is,

$$t = \frac{20.47 - 21.42}{\sqrt{61.43 \left(\frac{1}{4} + \frac{1}{4} \right)}}$$

$$= -0.17$$

with degree of frequency = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

The Calculated Value of $t = -0.17$

The tabulated Value of t at $\alpha = 0.05$ level of significance for two tailed test and for 6 degree of freedom is 2.447 i.e. $t_{0.05}(6) = 2.447$

Decision:

Since the calculated value of t i.e., -0.17 is less than the tabulated value i.e. 2.447, the null hypothesis is accepted. This means there is no significant difference between mean return of investment on government securities to total working fund of NSBL and EBL.

4.5.4.2 Test of Significance Difference Between NSBL and SCBNL

To test the significant relationship between NSBL and SCBNL, T-test has been used.

We have,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{sp^2 \left(\frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

here,

$$\begin{aligned} sp^2 &= \frac{1}{n_1 + n_3 - 2} \left(\sum x_1^2 + \sum x_3^2 \right) \\ &= \frac{1}{4 + 4 - 2} (307.59 + 69.75) \\ &= 62.89 \end{aligned}$$

Now, test statistics is,

$$\begin{aligned} t &= \frac{20.47 - 32.53}{\sqrt{62.89 \left(\frac{1}{4} + \frac{1}{4} \right)}} \\ &= -2.15 \end{aligned}$$

The calculated value of $t = -2.15$

With degree of freedom = $n_1 + n_3 - 2 = 4 + 4 - 2 = 6$

The tabulated value of t at 5% confidence level of significance for $(n_1 + n_3 - 2)$ degree of freedom in a two tailed test is 2.447 i.e. $t_{0.05}(6) = 2.447$

Decision,

Since the calculated value of t i.e., -3.056 less than the tabulated value 1.782, the null hypothesis is accepted i.e. there is no significant difference between mean ratio of investment on government securities to total working fund of NSBL and SCBNL.

4.6 Analysis of Primary Data

The primary data analysis has been used through the interview and questionnaires basis. The interpretation of the primary data is presented in this section of the study. The analysis has been presented in the as below to give the clear idea of the analysis:

1. The banks consider various possible factors while making investment decisions viz. projects reliability, safety, security etc.
2. Both the banks are maintaining their target deposit but due to limited investing opportunity, they are unable to use their funds in profitable sectors.
3. There is continuous gap between deposit and credit due to various internal and external factors.
4. Major portion of banks' deposit are invested in loan and advances because it is more profitable sector.
5. Commercial banks are facing various problems while investing in loan and advances like high lending rates, real estate crash problem in carpet industry, new economic policy and unclear NRB's policies.
6. Unstable Nepalese government and lack of managerial power also stand as major problems for commercial banks to make liberal investment decisions.
7. The above analysis shows that the commercial banks in Nepal are facing the problem in investment in loans and advances. Due to various internal and external factors the banks are not making open investments. Deposits are in excess and idle in these banks.

4.6.1 Factors That Should Be Considered While Making Investment Decision

The basic principles of lending are normally based on availability of resources. The following factors are taken into account while lending.

The most important factors contributing to success or failure of a lender is the person behind the investing project, their experience and the qualifications of the promoter.

The government's economic policies contribute to certain ventures. It is very important to do analysis of an industry/business vis-a-vis the particular industry/business to be financed. Industry like cement where proximity to raw material is essential. A demand supplies position analysis of the industries' must be carried out. Thus, economic policies and industries scenario must be analyzed before investing.

Transportation, power, water and labour etc. has a major bearing on viability of the unit. Government restriction like antipollution measure etc. must be considered.

The specific products that an enterprise wants to launch needs to be examined. The technology to be used for manufacture of the product may be an obsolete one leading to high cost of maintenance. Similarly a technology which a latest and cannot be maintained indigenously, may cut into profit margins. All these aspects should be studied carefully.

The factor that should weigh is the security available to them in case of failure of business proposed. It is preferable to option for collateral, which appreciates and is marketable. Government bonds, property are some of the collateral that are acceptable which satisfy the requirements. Banks are not expected to finance high-risk ventures and should prefer commercial and established ventures.

It is essential that money should be used and invested for safe and viable ventures, as it is public money that is being invested on their behalf.

Some addition grounds to be measured for lending are:

-) Liquidity
-) Profitability/economical project
-) Borrower's integrity
-) Market viability

4.6.2 Whether the banks are maintaining their target deposits or not?

Banks under have study maintained their target deposits and are having excess than the expectations. But due to the limitations of the productive investment sectors, they are avoiding their interest bearing deposits, which may reduce their target deposit. From the deposit of NSBL during the study period, it is clear that they have reduced their deposit growth rate in FY 2006/07 to negative rate (-15.8%). EBL's growth rate of deposit has decreased to 10.99% from 22.59% in FY 2008/09 from 2007/08. This makes clear that both the banks are maintaining their target deposits.

4.6.3 Whether the Banks are using their deposits properly or not?

Banks are trying their best in use of deposits but are not getting the secure productive opportunities to invest. (Forex, Treasury & Deposit), the investment opportunities for the

banks are very limited due to the external economic factors, unclear guidelines of NRB, and improper management of banks, which is the result of changing government policies.

They are investing their excess funds in other investments rather than in loans and advances. While doing so they are bearing their margin loss of at least 2%, but it is better than keeping money idle for nothing.

4.6.4 The Gap between Deposits and Credit is increasing Rather than Decreasing

1. Commercial banks were cautious in extending loans. The rising non-performing assets in their portfolio and a bit pessimistic view about the economy following the Asian crisis guided such behavior of banks.
2. The corporate sector was not happy with the commercial banks' lending rates at a time business slackness was observed in the economy.
3. The business community also played a role for relatively low demand for bank credit observes the problem with the introduction of VAT.

4.6.5 Major Portion of Deposit are Invested in Loans and Advances

Major portion of bank's deposits are invested in loan and advances because it is the only profitable sector for long-term investment. The banks do not get much profit from other investments.

4.6.6 Margin Rate of Securities

While placing the collateral banks keep the margin for the bank in the total value of goods, movables, assets and other securities. The bank determines the actual market value of the securities and fixes its margin.

The margin varies according to the types of collateral.

DIFFERENT RATES

Assets	Margin Suggested
Land	33 to 50%
Building	25 to 50%
Plant and machinery	25%
Stock	30%

Others

25 to 30%

4.6.7 Major Problems that Commercial Banks are facing while investing in Loan and Advances

A number of factors can be attributed to a lower bank credit off-take in recent years.

4.6.7.1 High Lending Rate

As industries in Nepal are not performing well due to slowdown in economic activities and a host of the factors, they are unable to bear the interest rate that is 8% to 12%, which is relatively high. This leads in credit deadlock for the commercial banks.

4.6.7.2 Real Estate Crash

When the real estate business began to decline in 1994/95, non-performing assets of commercial banks increased but also the fresh disbursement of loans to these sectors decelerated. The crash in real estate market thus played a role in the deceleration of bank credit growth in recent years.

4.6.7.4 New Economic Policy

The changing economic policies in Nepal affect adversely to the overall business environment which slowdown in the development of business sectors. The sluggish business growth gives deadlock to the bank's credit.

4.6.7.5 NRB's Policies

Maturity restrictions on rediscounting of government papers removed.

-) Reduced bank rate
-) Withdrawals of NRB bonds from the market
-) Lower cash reserve ratio
-) Directives to reduce interest

4.6.7.6 Nepal Government's Measures against This Problem

Nepalese government is still not showing any strong activities to solve this problem. The internal crisis of Nepal has not been solved yet, which is disturbing the whole economy of Nepal.

4.6.7.7 Bank's Management

The Nepalese commercial banks are also responsible for this problem of credit deadlock as there is very less cooperation between all the commercial banks. They are not moving in the same path, each and every bank is performing differently with respect to deposit and loan activities.

4.7 Major Findings of the Study

- J In case of NSBL, there is an increase of 24.09% in 2002/03 & in 2004/05 it slightly declined to 23.98%. Decline in the percentage growth rate in average deposits remained till FY 2006/07 in which the growth rate is very nominal i.e. only 1.86%. The growth rate in the FY 2004/05 was 21.84% and in 2005/06 was 17.31%. After reaching to the minimum point the growth rate increased in the following year i.e. FY 2007/08 to 10.12% but still in the last year of the study period the growth rate declined to 5.52%. Aggregate deposits are highly fluctuating during the study period i.e. FY 2002/03 to FY 2008/09.
- J The deposit structure of NSBL shows the fluctuating trend during the study period. The growth rate reduced in 2002/03 to 4.1% from 12.35% in 2001/02, but increased to its highest level of 45.7% in FY 2004/05. NSBL takes measures against it, which results to negative growth of deposit in FY 2004/05 of 15.8%. Then after the total deposits of NSBL has increased continuously but the growth rate is fluctuating. The growth rate is 17.1%, 10.4%, 20.2% and 27.1% in the fiscal years 2005/06, 2006/07, 2007/08 and 2008/09 respectively.
- J Loans and advances of NSBL shows continuous decline during the initial period of the study period. It recorded as 17.31%, 10.00%, -2.73% in FY 2004/05, 2004/05 and 2005/06 respectively. Then after the growth rate is in the increasing trend. The growth rate is 15.11%, 20.081% and 22.74% in the fiscal years 2006/07, 2007/08 and 2008/09 respectively. The C.V% shows high fluctuation in loan and advances during the study period.
- J The investment of NSBL is also fluctuating highly during the study period. The various ups and downs are seen in investment portfolio of NSBL.
- J The deposits of EBL show high fluctuation in its growth rate. The amount of deposit is continuously increasing during the study period even though there are ups and downs in the growth rate. The deposits growth rate of EBL ranges from 10.99% to 56.88%. Thus we can conclude that there is a high fluctuation in the growth rate in deposits of EBL.

- J) The growth rate in the loans and advances of EBL is also fluctuating but there is a continuous growth in the level of loans and advances. It increased by 32.4% in the FY 2004/05 and the growth rate still increased to 34.55% in the following year i.e. 2004/05. The growth rate declined to 24.86% and further to 20.72% in the following two years i.e. 2005/06 and 2006/07 respectively. But the growth rate increased from 20.72% to 24.98% in FY 2007/08 and further to 28.65% in the ending year of the study period i.e. FY 2008/09.
- J) There is high fluctuation in the growth rate in the investments of EBL. The growth rate ranges from 246.7% to a negative rate of -16.0%. In the FY 2004/05, the growth rate of investments is the maximum i.e. 246.7% but decreased very steeply to 87.8% in the following year and to negative growth rate of -2.3% in the FY 2005/06. The rate increased to 53.3% in the FY 2006/07 but it then again declined and shows a negative growth rate of -16.0% in the year 2007/08 but it increased to 97.3% in the last year of the study period i.e. FY 2008/09.
- J) The deposit structure of SCBNL shows the fluctuating trend during the study period. The growth rate increased in FY 2004/05 from 11.3% in FY 2002/03. It still reduced to 2.6% in the FY 2004/05 but the deposit growth rate increased to 18.4% in the year 2005/06. It again reduced to 12.8% from 18.4% in 2006/07. There is a negative growth rate of -8.6% in the year 2007/08 but the deposit level increased in the last year of the study period resulting a positive growth rate of 19.3%.
- J) The growth rate in loans and advances of SCBNL shows continuous fluctuation during the study period. It recorded as 19.5% in FY 2004/05. FY 2004/05, there is a decrease in the loans and advances level which resulted a negative growth rate of -2.3%. Then after the advances level continuously increased during the study period, but the growth rate is fluctuating. In the FY 2005/06, 2006/07, 2007/08 and 2008/09 the growth rates are 5.06%, 5.42%, 27.04% and 9.73% respectively. The C.V% shows high fluctuation in loan and advances during the study period.
- J) The investment is highly fluctuating during the study period. The various ups and downs are seen in investment portfolio of SCBNL. The growth rate in investments is maximum in FY 2004/05 i.e. 92.4% and the minimum i.e. -14.6% in FY 2007/05. In other years of the study period the growth rate are 44.0%,

11.7%, 9.7% and 32.4% in the fiscal years 2005/06, 2006/07, 2007/08 and 2008/09 respectively.

- J The mean ratio of cash and bank balance to deposit ratio of SCBNL is slightly higher than NSBL and EBL. It states that the liquidity position of SCBNL is better in this regard. Similarly the ratio of SCBNL is more variable and less consistent than that of others.
- J The mean ratio of investment on government securities to current asset ratio of SCBNL has been found higher than that of EBL and NSBL. However, NSBL seems to have more variable ratios than that of SCBNL and EBL.
- J The mean ratio of loan and advances to current asset of EBL is higher than that of SCBNL and NSBL. But ratios of SCBNL are more variable.
- J The loan and advances to working fund ratio of EBL & NSBL are almost similar and SCBNL is lowest. But ratios of SCBNL are more variable than that of NSBL and EBL.
- J The mean ratio of investment on government securities to working fund ratio of SCBNL is greatest among the three banks. On the other hand ratio of SCBNL is less variable than that of NSBL and EBL. The ratio of NSBL is lowest but most variable.
- J EBL has maintained slightly higher mean ratio of investment on shares and debentures to working fund ratio than EBL, but this ratio of SCBNL is very high then others. The ratio of EBL is highly variable than NSBL and SCBNL.
- J The mean ratio of return on loan and advances of NSBL is lower than that of EBL and SCBNL. SCBNL has the highest ratio among three banks. But there is high level of inconsistency in the ratio of NSBL.
- J The average credit ratio of NSBL and EBL are similar, but fluctuation in ratio of NSBL is higher than EBL. In case of SCBNL, the ratio is lowest and the fluctuation in ratio is highest.
- J Co-efficient of correlation between deposit and investment of SCBNL is higher than EBL and NSBL. Regression analysis shows positive rate of change for both the banks. NSBL has the lowest correlation.
- J SCBNL and EBL have almost same value of co-efficient of correlation between deposit and loan & advances. The co-efficient to correlation of NSBL is less then others.

- J The calculated value of t 1.8139 is greater than that the tabulated value 1.782, so there is significant differences mean ratios of net profit to total deposit of NSBL and EBL. But there is no significant difference between mean ratio of net profit to total deposit of NSBL and SCBNL and indicates that the bank has not mobilized the total deposit to generate more profit .
- J There is no significant difference between mean ratio investment on government securities to current assets of NSBL, EBL and SCBNL.
- J There is no significant difference between mean ratios of total investment and total deposit of NSBL , EBL and SCBNL.
- J There is no significant difference between mean ratios of investment on government securities to total working fund of NSBL, EBL and SCBNL.
- J The Net profit on total deposit is positive in simple regression equation in case of SCBNL and negative in NSBL and EBL. It indicates that one million increase in total deposits leads to average 0.0226260 increase in net profit of SCBNL. Likewise in case of NSBL and EBL, the constant (b) is zero then they should bear loss due to constant (a) is negative.
- J The regression of net profit on total investment is positive. It indicates one million increase in total investment leads to average of 0.0209158, 0.0512403 and 0.0227019 million increase in net profit of NSBL, EBL and SCBNL, respectively.
- J Simple regression of total investment on total deposits is negative. It reveals that banks are not utilizing all deposits to investments. They diversify deposits in various sector .The constant (a) is negative in all equations so banks consider it more sensitively. The constant (b) is positive in all equations, so increase in one million in total deposit leads to average 0.57377, 0.326476 and 0.885656 million increase in total investment of NSBL, EBL, and SCBNL, respectively.

CHAPTER –V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The deposits and its investment in productive sectors by commercial banks are not stable. They are not earning profits. The increasing deposit are idle in the banks and in turn they are investing these funds in other sectors as government securities at a maximum of 4% interest rate while the cost of fund they are bearing is around 5-6%, but it is better than nothing for the commercial banks. A decline in overall business market, sluggish performance of industry and slowdown in tourism sector accounted for such a deceleration in the commercial bank activities.

Nepal SBI Bank's deposits increased highly in FY 2004/05 and the deposit level had increased during the study period except in the FY 2005/06 at which the deposit had a negative growth rate of 15.8% which leads to improve banks' policy. In 2004/05 NSBL was successful in decreasing its high deposit, but still loans and advances are not growing to its point and banks are investing their excess fund in other sectors. In case of EBL and SCBNL, the percentage growth in loan and advances is lower than investment. The increasing investment and reducing loans and advances from total deposit are great problem for the banks to manage.

The fluctuation in deposit, loan and advances & investment makes clear about adjustment problem for the banks. The liquidity position of EBL and SCBNL are better than NSBL. It may be in a good position to meet the daily cash requirement but it has to bear high cost of fund. Since SCBNL's investment on government securities is better than NSBL and EBL but higher ratio indicates unstable position of investment. It can be concluded that SCBNL has good deposit collection, has made enough investment on government securities but it has maintained moderate investment policy on loan and advances. SCBNL is comparatively successful in its on-balance sheet as well as off-balance sheet activities. However on the average all of three banks are working equally in this regard. Risk and profitability analysis shows that SCBNL is in better position and NSBL is in worse and correlation analysis shows that there is significant relationship between deposit, investment and loan & advances of both the banks. There is no

significance difference between deposit and loan and advances and between deposit and investment of both the banks.

The commercial banks in Nepal are facing the problem in investment in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these banks. Therefore, these banks should formulate new investment strategies. They should launch the intensive programs to encourage borrowers. The commercial banks should talk to NRB to make clear and new policies keeping in view the problems that these banks are facing. These banks should take these problems seriously.

5.2 Conclusions

Liberal economic policy of government has encouraged the establishment and growth of commercial banks in the country with in short span of time. In Nepal there are 19 registered commercial banks and branches all over the country. This number has further increased during the study period.

Most of the commercial banks are widening their networks by opening new branches at various places of the country due to the re-establishment of peace in the nation. The commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors. The deposits and its reinvestment in productive sectors by commercial banks are not stable. They are not earning more profit for commercial banks. The increasing deposits are idle in the banks and in turn, they are investing these funds in other sectors as government securities at maximum of 4% interest rate while the cost of fund they are bearing is 5-6%, but it is better than nothing for the commercial banks. A decline in overall business market, sluggish performance of industry and slowdown in tourism sector accounted for such a deceleration in the commercial bank activities. Nepal SBI bank's deposits increased highly till 2000/01, which leads to improve banks' policy. In 2004/05 NSBL was successful in decreasing its high deposit, but still loans and advances are not growing to its point and banks are investing their excess fund in other sectors. In case of EBL and SCBNL, the percentage growth in loan and advances is lower than investment. The increasing investment and reducing loans and advances from total deposit are great problem for the banks to manage. The fluctuation in deposit, loans and advances & investment makes clear about

adjustment problem for the banks. The liquidity position of SCBNL is higher than others. The liquidity position of EBL is slightly better than NSBL. It may be in a good position to meet the daily cash requirement but has to bear high cost of fund. Since investment on government securities is better but higher ratio indicates unstable position of investment. It can be concluded that SCBNL has good deposit collection, it has made enough investment on government securities but has maintained moderate investment policy on loan and advances. SCBNL is comparatively successful in its on-balance sheet as well off-balance sheet activities.

On the average other two banks are working equally in this regard. Risk and profitability analysis shows, there is significant relationship between deposit, investment and loan & advances of all the banks. There is no significant difference between deposit and loan and advances and between deposit and investment of the banks. The commercial banks in Nepal are facing the problem of investment in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these banks.

Strengthening and the institutionalization of the commercial banks are 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 such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade off 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 canalization 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.

5.3 Recommendations

On the basis of analysis and findings of the study, following recommendations can be advanced to overcome weakness, inefficiency and improve present fund mobilization and investment strategies of Nepalese commercial banks with regards to NSBL, EBL and SCBNL.

- J The liquidity position of the bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks' directives, the lending policies etc. As NSBL has maintained the ratio of cash and bank balance to total deposit lower than that of EBL and SCBNL, it is recommended that bank increases cash and bank balance to meet current obligations and loan demand.
- J Commercial banks are the profit motive banks; they cannot keep their eyes closed from profit. They should be careful in increasing profit in the real sense to maintain the confidence of shareholders, depositors and its customers. NSBL return on loan and advances is lower than EBL and SCBNL, so it is strongly recommended to utilize its risky assets and shareholders' fund to gain highest profit margin.
- J Though the government securities issued by government are free of risk of default; such securities yield the lowest interest rates of a particular maturity. SCBNL has invested more than EBL and NSBL in government securities so, it is recommended to invest in some profitable sectors like providing loan to developing industries as tourism industry etc.
- J The off-balance sheet operation yield high return in terms of commission, discount, fees etc. So, these are very important to the commercial banks. NSBL has been found not in utilizing the modern fee-based off balance sheet activities to the maximum possible extent in comparison to the other banks. So, NSBL is recommended to enhance off-balance sheet transactions in the days to come.
- J Portfolio condition of all the banks should examined from time to time and attention should be paid to maintain equilibrium in the portfolio condition as far as possible. The investment opportunities should be grabbed to optimize their investment portfolio. Commercial banks should invest in different

projects, finance developing industries like tourism with the help government, which provides security to them.

- J The commercial banks should go for some new avenues of investment in consortium like hydro-electricity and infrastructure development of the country etc. This will help in the development of economy as well as banks' operation.
- J For smooth operation of the bank there must be proportional increase or decrease on credit according to deposit, this can be achieved either by discouraging certain deposit or aggressively marketing its loanable funds to existing or potential customers.
- J Looking at current trend of banking business, a bank must be careful while formulating marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is recommended that EBL and NSBL develop innovative approach to banks marketing for its well being and sustainability in the market upgrade the banking facilities as per the changing need of the customers.
- J In the context of commercial banks in Nepal, for speedy development of the kingdom, HMG/N and NRB as well as all the commercial banks are suggested to follow decentralization policy and formulate new plans and policies to develop banks' credit operation like formulating policies regarding investments in small scale industries, tourism industry, hydro-electricity projects etc.

Appendices 1

Sources and Uses of Fund of Commercial Banks

S.N	Purpose	2005	2006	2007	2008	2009 Mid march
1	CAPITAL FUND	6729.2	8230.2	10202.5	11814.6	12229.3
	a. Paid-up Capital	4067.4	5504.1	6431	7726	7953.8
	b. Statutory Reserves	1976.7	1787.1	2540	2820	3011.9
	c. Other Reserves	685.2	939	970.6	1192.9	1200.7
	d. Retained Earning			260.9	75.7	62.9
2	DEPOSITS	154943	181767	185145	203879	215136.6
	a. Current	20319.5	25100.7	24327	28862.5	27386.3
	b. Savings	65703.6	80988.4	83855.6	97238.9	105780.9
	c. Fixed	62204.2	65322.3	64171.4	63287.6	64657.6
	d. Call Deposits	3715.8	7691.8	10531.9	12027.9	14557.9
	e. Others	2999.9	2663.8	2258.8	2462.4	2753.9
3	BORROWINGS	3346.6	2308.7	2349.5	3170.4	4324.2
	a. NRB	428.1	411.8	1167.7	1437	974.1
	b. Inter Bank	2918.5	1896.9	953.4	1599.2	1288.8
	c. Foreign Bank	0	0	228.5	134.2	2061.3
	d. Financial Ins.					
4	OTHERS	44452.6	59221.3	77221.2	86697.4	87343.7

S.N	Purpose	2005	2006	2007	2008	2009 Mid march
1	J LIQUID FUNDS	48240	55583.3	49937.2	38163.6	30762.8
	J a. Cash in hand	3507	4116.9	4881.1	4735.9	3710.4
	J b. FC in Hannd	632.1	658.2	613.8	704.5	567.1
	J c. Bal. with NRB	16945.1	21440.9	23170.3	16867.6	12331.5
	J d. Bal. with Dom. Bank	676.9	796.1	928.2	683.7	807.3
	J e. Bal. with other Financial Ins			0	0	-1.1
	J f. Bal. held abroad	14613.9	14993.9	7016.7	3783.1	2053.4
	J g. Call Money	11864.9	13577.3	13327.3	11388.8	11294.2
	J					
2	J INVESTMENTS	17967.3	25446.5	34209.8	45386.3	53682.4
	J a. Govt. Securities	17608.8	25100.9	28573.8	39045.5	46265.6
	J b.Share, Deb. & Other Inv	358.5	345.6	5636	6340.8	7416.8
	J c. NRB Bond					
	J					
3	J LOANS & ADVANCES	96324.9	109121	113175	124522	133437.4
	J a. Govt. Entp.	2114.3	2909.6	2651.1	2867.7	2787.7
	J i. Financial	695	1209.1	991.2	965.1	1139.4
	J ii. Non-Finan.	1419.3	1700.5	1659.9	1902.6	1648.3
	J b. Pvt. Sector	92241.8	104209	109043	120343	129620.8
	J c. For. Bills P & D.	1820.4	1887.2	1322.2	1143.8	969.2
	J d. Foreign A.B.C.	148.4	115	158	167.5	59.7

4)						
	)	INTEREST ACCRUED	16125.8	19888.5	23742.8	27722.2	32805.3
	)	a. Govt. Entp.	372	334.3	308.2	297.8	265.6
	)	b. Private Sector	15753.8	19554.2	23434.6	27424.4	32539.7
5)						
	)	OTHERS	30813.5	41487.7	53853.6	69767.2	68345.9
	)	USES OF FUNDS	209471.5	251527	274918	305562	319033.8

Appendices 2

Sources and Uses of Funds Of Nepal SBI Bank Limited

S.N	Purpose	2005	2006	2007	2008	2009 Mid march
1	CAPITAL FUND	208.8	243.5	541.5	582.9	592.3
	a. Paid-up Capital	119.9	143.9	424.9	425.2	425.2
	b. Statutory Reserves	63.2	73.2	75.7	83.9	136.2
	c. Other Reserves	25.7	26.4	28.7	32.9	27.5
	d. Retained Earning Reserves			12.2	40.9	3.4
		88.9	99.6	116.6	157.7	167.1
2	DEPOSITS	4543.2	6618.4	5572.2	6522.8	5876.8
	a. Current	951	2359.9	1086.7	1300	827.8
	b. Savings	1094.9	1259.5	1274.7	1820.7	1808.3
	c. Fixed	2420.3	2929.4	3132.7	3337.6	3170.9
	d. Call Deposits	0	0	26.3	0	0
	e. Others	77	69.6	51.9	64.5	69.8
3	BORROWINGS	0	0	264.2	65.8	0
	a. NRB	0	0	264.2	65.8	0
	b. Inter Bank	0	0	0	0	0
	c. Foreign Bank	0	0	0	0	0
	d. Financial Ins.					
4	OTHERS	439	538.5	574.3	829.1	932.1
	SOURCES OF	5191	7400.4	6952.2	8000.6	7401.2

FUND					
-------------	--	--	--	--	--

S.N	Purpose	2005	2006	2007	2008	2009 Mid march
1	LIQUID FUNDS	1010	2348.2	1403.2	1331.6	462.3
	a. Cash in hand	123	133.2	147.8	243.1	183.3
	b. FC in Hannd	15.6	15.3	18.8	26.5	21.5
	c. Bal. with NRB	364.3	294.2	1177.5	892.3	371.2
	d. Bal. with Dom. Bank	1	4.7	12.9	12.2	9.4
	e. Bal. with Other Financial Ins.			0	0	0
	f. Bal. held abroad	386.2	1510.8	46.2	157.5	-123.1
	g. Call Money	120	390	0	0	0
2	INVESTMENTS	201.8	373.6	521.1	1207.3	1146.5
	a. Govt. Securities	192.9	364.7	503.2	1189.4	1128.6
	b. Share, Deben & Other Inv.	8.9	8.9	17.9	17.9	17.9
	c. NRB Bond	0	0	0	0	0
3	LOANS & ADVANCES	3560.1	4176.3	4593.9	4766.1	4964.5
	a. Govt. Entp.	88.3	88.3	87.4	50	50.4
	i. Financial	0	0	0	0	0
	ii. Non-Finan.	88.3	88.3	87.4	50	50.4
	b. Pvt. Sector	3428.8	4002.7	4441.2	4711.1	4909.1
	c. For. Bills P & D.	43	85.3	65.3	5	5
	d. Foreign A.B.C.	0	0	0	0	0

4	INTEREST ACCRUED	172.8	164.6	198.5	389.7	399.6
	a. Govt. Entp.	0	0	2.3	0.5	0
	b. Private Sector	172.8	164.6	196.2	389.2	399.6
5	OTHERS	246.3	337.7	235.5	305.9	428.3
	USES OF FUNDS	5191	7400.4	6952.1	8000.6	7401.2

Appendices 3

Sources and Uses of Funds of Everest Bank Limited

S.N	Purpose	2005	2006	2007	2008	2009 Mid march
1	CAPITAL FUND	127.6	249.4	497.8	587.1	612.9
	a. Paid-up Capital	119.2	197	399.3	455	461.4
	b. Statutory Reserves	5.1	13.4	27.3	44.9	64.5
	c. Other Reserves	3.2	39	8.7	14.3	46.1
	d. Retained Earning			62.5	72.9	40.9
2	DEPOSITS	3057.4	4574.5	5461.1	6694.9	7430.8
	a. Current	274.4	399.7	489.6	562.4	564.8
	b. Savings	891.7	1384.1	1733.3	2758	3184.7
	c. Fixed	1592.7	2470.2	2694.6	2803.4	2994.7
	d. Call Deposits	185.4	225.6	439.4	428	535
	e. Others	113.2	94.9	104.2	143.1	151.6
3	BORROWINGS	0	80	310.3	83.2	504.2
	a. NRB	0	0	81.8	0	0
	b. Inter Bank	0	80	0	0	0
	c. Foreign Bank	0	0	228.5	83.2	504.2
	d. Financial Ins.			0	0	0
4	OTHER LIABILITIES	226.7	336.3	505	895	894.1
	SOURCES OF FUND	3411.7	5240.2	6774.2	8260.2	9442

S.N	Purpose	2005	2006	2007	2008	2009 Mid march
1	LIQUID FUNDS	278.6	824.1	809.2	1156.1	720.1
	a. Cash in hand	41.9	92.9	146.3	109.8	132.4
	b. FC in Hannd	8.8	15.1	23.6	26.8	11.8
	c. Bal. with NRB	130.5	385.6	357.7	724.8	433.3
	d. Bal. with Dom. Bank	4.3	2.3	3.1	5.9	3.4
	e. Bal. with Other Financial Ins.			0	0	0
	f. Bal. held abroad	93.1	328.2	141.5	251.3	139.2
	g. Call Money	0	0	137	37.5	0
2	INVESTMENTS	260.1	826.7	1628.6	1616.5	2427.8
	a. Govt. Securities	257.6	823	1538.9	1559.4	2410.7
	b. Share, Deben & Other Inv.	2.5	3.7	89.7	17.1	17.1
	c. NRB Bond	0	0	0	0	0
3	LOANS & ADVANCES	2270.2	3006.6	3982.7	5049.6	5800
	a. Govt. Entp.	0	0	0	60	70
	i. Financial	0	0	0	60	70
	ii. Non-Finan.	0	0	0	0	0
	b. Pvt. Sector	2230.8	2963.7	3969.6	4970.9	5700.3
	c. For. Bills P & D.	39.4	42.9	13.1	18.7	29.7
	d. Foreign A.B.C.	0	0	0	0	0

4	INTEREST ACCRUED	76.2	94.3	99.8	147.6	159.3
	a. Govt. Entp.	0	0	0	0.9	8.3
	b. Private Sector	76.2	94.3	99.8	146.7	151
5	OTHERS	526.6	488.5	253.9	290.4	334.8
	USES OF FUNDS	3411.7	5240.2	6774.2	8260.2	9442

Appendices 4

Sources and Uses of Funds Of Standard Chartered Bank Nepal Limited

S.N	Purpose	2005	2006	2007	2008	2009 Mid march
1	CAPITAL FUND	834.7	920.3	1012.3	1119.0	1152.9
	a. Paid-up Capital	339.5	339.5	339.5	339.5	339.5
	b. Statutory Reserves	430.4	508.9	595.0	679.1	679.1
	c. Other Reserves	64.8	71.9	77.8	100.4	134.3
	d. Retained Earning			0.0	0.0	0.0
2	DEPOSITS	12566.4	15430.1	15835.7	18755.5	18326.6
	a. Current	2417.1	3279.4	3808.4	5768.6	4280.3
	b. Savings	6632.7	8404.6	9441.8	10633.1	11972.0
	c. Fixed	2926.2	3471.7	2264.9	1948.5	1468.2
	d. Call Deposits	0.0	0.0	101.1	185.2	349.7
	e. Others	590.4	274.4	219.5	220.1	256.4
3	BORROWINGS	2380.8	1590.0	671.5	79.1	1575.9
	a. NRB	0.0	0.0	0.0	0.0	0.0
	b. Inter Bank	2380.8	1590.0	671.5	28.1	18.8
	c. Foreign Bank	0.0	0.0	0.0	51.0	1557.1
	d. Financial Ins.					
4	OTHER LIABILITIES	2574.1	3477.7	2156.1	2355.5	2766.6
	SOURCES OF FUND	18356.0	21418.1	19675.6	22309.1	23822.0

S.N	Purpose	2005	2006	2007	2008	2009 Mid march
1	LIQUID FUNDS	8063.4	8086.5	2890.6	3170.0	3274.8
	a. Cash in hand	109.4	169.9	224.0	153.2	167.4
	b. FC in Hannd	16.8	17.7	33.8	45.5	41.5
	c. Bal. with NRB	649.9	659.5	369.8	1141.1	1755.8
	d. Bal. with Dom. Bank	-4.0	1.4	16.7	112.3	8.6
	e. Bal. with Other Financial Ins.			0.0	0.0	0.0
	f. Bal. held abroad	7291.3	7238.0	184.3	60.0	223.7
	g. Call Money	0.0	0.0	2062.0	1657.9	1077.8
2	INVESTMENTS	3349.9	4822.2	9276.0	10357.7	12868.2
	a. Govt. Securities	3338.7	4811.0	5784.8	6722.8	9073.7
	b. Share, Deben & Other Inv.	11.2	11.2	3491.2	3634.9	3794.5
	c. NRB Bond	0.0	0.0	0.0	0.0	0.0
3	LOANS & ADVANCES	4957.5	5924.1	5787.9	6080.7	6121.0
	a. Govt. Entp.	365.5	359.9	286.2	51.5	252.0
	i. Financial	169.3	239.7	90.0	6.2	90.0
	ii. Non-Finan.	196.2	120.2	196.2	45.3	162.0
	b. Pvt. Sector	4394.3	5478.8	5389.4	5977.0	5833.6
	c. For. Bills P & D.	197.7	85.4	112.3	52.2	35.4
	d. Foreign A.B.C.	0.0	0.0	0.0	0.0	0.0

4	INTEREST ACCRUED	137.4	186.6	216.0	167.6	313.5
	a. Govt. Entp.	0.0	0.0	0.0	2.5	0.0
	b. Private Sector	137.4	186.6	216.0	165.1	313.5
5	OTHERS	1847.8	2398.7	1505.1	2533.1	1244.5
	USES OF FUNDS	18356.0	21418.1	19675.6	22309.1	23822.0

Annex

Correlation Analysis Between Deposits And Investment Of SBI

Year	Deposit (X)	Investment (Y)	X ²	Y ²	XY
2005/06	8645.1	2607.7	74737754.01	6800099.29	22543827.27
2006/07	10852.7	3699.9	117781097.3	13689260.01	40153904.73
2007/08	11445.2	2377.5	130992603	5652506.25	27210963
2008/09	13725.4	5524.4	188386605.2	30518995.36	75824599.76
	51900.5	16098.9	564201329.9	60230693.27	179397624.5

$$\text{Correlation} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 | 179397624.5 - 1567621 | 91480}{\sqrt{5 | 4181624204.2 - (156762.1)^2} \sqrt{5 | 1454870648.2 - (91480)^2}}$$

$$= 0.840419005$$

$$\text{Probable Error (P.E)} = 0.6745 \left| \frac{1 - r^2}{\sqrt{n}} \right|$$

$$= 0.0886$$

$$6 \text{ P.E} = 0.5316$$

Correlation Analysis Between Deposits And Loan And Advances Of SBI

Year	Deposit (X)	Loan And Advances (Y)	X ²	Y ²	XY
2005/06	8645.1	6619.1	74737754.01	43812484.81	57222781.41
2006/07	10852.7	8059.6	117781097.3	64957152.16	87468420.92
2007/08	11445.2	9846.7	130992603	96957500.89	112697450.8
2008/09	13725.4	12574.9	188386605.2	158128110	172595532.5
	51900.5	42591.2	564201329.9	394005230.7	469694923.5

Correlation = 0.978836001

Probable Error (P.E) = 0.0126

P.E = 0.0759

Correlation Analysis Between Deposits And Investment Of EBL

Year	Deposit (X)	Investment(Y)	X ²	Y ²	XY
2005/06	10097.8	2100.3	101965564.8	4411260.09	21208409.34
2006/07	13802.5	3548.6	190509006.3	12592561.96	48979551.5
2007/08	19097.7	4704.6	364722145.3	22133261.16	89847039.42
2008/09	23976.3	4906.5	574862961.7	24073742.25	117639716
	75038.3	17726.4	1297087774	69293954.42	297563765.8

Correlation = 0.949704337

Probable Error (P.E) = 0.04386

6 P.E = 0.2631

Correlation Analysis between Deposits and Loan and Advances of EBL

Year	Deposit (X)	Loan and Advances (Y)	X ²	Y ²	XY
2005/06	10097.8	7914.4	101965564.8	62637727.36	79918028.32
2006/07	13802.5	10124.2	190509006.3	102499425.6	139739270.5

2007/08	19097.7	14059.2	364722145.3	197661104.6	268498383.8
2008/09	23976.3	18814.3	574862961.7	353977884.5	451097301.1
	75038.3	57028.7	1297087774	754188937.7	988577246.2

Correlation = 0.996602554

Probable Error (P.E) = 0.00205

6 P.E = 0.01229

Correlation Analysis between Deposits and Investment of SCBNL

Year	Deposit (X)	Investment(Y)	X ²	Y ²	XY
2005/06	19344	9704.1	374190336	94169556.81	187716110.4
2006/07	23050.5	12560.6	531325550.3	157768672.4	289528110.3
2007/08	24640.3	13564	607144384.1	183982096	334221029.2
2008/09	29743.9	13902.8	884699587.2	193287847.8	413523492.9
	117940.1	61091.8	2845164708	758264589.1	1465388595

Correlation = 0.891000867

Probable Error (P.E) = 0.06217

6 P.E = 0.3731

Correlation Analysis between Deposits and Loan and Advances of SCBNL

Year	Deposit (X)	Loan and adv (Y)	X ²	Y ²	XY
2005/06	19344	8213.5	374190336	67461582.25	158881944
2006/07	23050.5	8905.1	531325550.3	79300806.01	205267007.6
2007/08	24640.3	10538.1	607144384.1	111051551.6	259661945.4
2008/09	29743.9	13355	884699587.2	178356025	397229784.5
	117940.1	47673.7	2845164708	480552208.9	1162017928

Correlation = 0.92497855

Probable Error (P.E) = 0.04355

6 P.E = 0.2613

BIBLIOGRAPHY

A. BOOKS

Bhalla, V.K. **“Investment Management, Security Analysis and Portfolio Management”**, New Delhi: S. Chand & Company, 1998

Bhalla, V.K. **“Portfolio Analysis & Management”**, New Delhi; S.Chand & Company, 2002

Bhattraï, Dilli Raj, **"Banking and insurance, principle practice"**.

Board of Editors, University, ICFAI: **“Advance Portfolio Management”**, 52, Nagarjuna Hills, Hyderabad-500 082; ICFAI University Press, 2003

Chandra, Prasanna: **“Financial Management Theory and Practice”**, New Delhi:”1994.

Cheney, John M. and Moses, Edward A: **"Fundamentals of Investment"**. St. Paul: West Publishing Company, 1995.

Dhal, Bhuvan and Dhal Sarita, **“Hand book to Banking”**, Second edition 2002,

Fischer, Donald E. and Jordan; **“Security Analysis and Portfolio Management”**. New Delhi: Prentice Hall of India Pvt. Ltd., 2000

Francis, Jack Clark: **“Investment Analysis and Management”**, McGraw-Hill Publication, 1986.

Gitman J. Lawrence: **“Principles of Managerial Finance”**. New York: Wright State University, 1985

Kothari, C.R, **"Research methodology and techniques"** New Delhi: Vikas Publishing House Pvt. Ltd. 1995

Pandey, I.M.: **“Financial Management”**, New Delhi: Vikas Publishing House Pvt. Ltd. 1995

Panth, Wolf, "**Social science research thesis writing**" 2002, 3dr edition

Sharpe, William F. Alexander and Bailey: "**Investment**", New Delhi: Prentice Hall of India Private Ltd., 2001

Shrestha, Dr. Sunity and Silwal, Durba Prashad: "**Statistical Methods in Managemtn**", Kathmandu: Taleju Prakashan, 2000

Shrestha, Keshav N and Manandhar, Kamal Man, "**Statistics and Quantitative Techniques for Management**". Third edition 2056, page 107.

University ICAI: "**Quantitative Methods**". 52, Nagarjuna Hills, Hyderabad-500 082: ICAI University Press, September, 2003

University, ICAI: "**Financial Management**", 52, Nagarjuna Hills, Hyderabad-500 082: ICAI University Press, November, 2003

Van Horne, James C: "**Financial Management and Policy**". New Delhi: Prentice Hall of India Pvt. Ltd., 1998

Wolff, Howard K. and Panta, P.R: "**A Handbook for Social Science Research and Thesis Writing**", Kathmandu: Buddha Academic Enterprises Pvt. Ltd. 1999

B. JOURNALS AND PERIODICALS:

Evans, John L. "**An Analysis of Portfolio maintenance Strategies**" **Journal of finance XXV June 1970 P. 561-568**

Gaumnitz, Jack E. "**Appraising Performance of Investment Portfolios**" The Journal of finance Vol. XXV, June 1970. PP 555-560

ICFAI University Press "**Charter Financial Analyst**" Finance Magazines, July 2004 PP 17-22, 56-83

ICFAI University Press **“Financial Risk Management”** Journal of Finance, February 2004 PP 32-37

ICFAI University Press **“Portfolio Organizer”** Finance Magazines, February 2004 PP 36-23, 76-85, May 2004 PP 13-21

ICFAI University Press, **“Applied Finance”** Journal of Finance, April 2004 PP 23-27

Lintner, J. (1965): **“The valuation of risk assets and the selection of risky investments in stock portfolios and capital budgets”** Review of Economics and Statistics, 47: 13-37

Markowitz, Harry M. **“Portfolio Selection”**, Journal of Finance, 1952, pp 77-91

Markowitz, Harry M: **“Portfolio Selection”**, Journal of Finance, 7 (1) 77-91, 1952

Markowitz, Harry M: **“The early history of portfolio theory: 1600-1960”** Financial Analysts Journal, 55 (4), 5-16, 1999

Sharpe, William F. (1964): Capital asset prices: **“A theory of market equilibrium under conditions of risk”** Journal of Finance, 19 (3), 425-442

Shrestha Shiba Raj, **“Portfolio Management in Commercial Banks, Theory and Practice”** Nepal Bank Patrika, Baishakh 2055

Shrestha, Ramesh Lal, **“A study of Deposit and Credits of Commercial Banks in Nepal”** Nepal Rastra Bank, Samachar, NRB, 2045 B.S.

C. THESIS

Acharya, Ganendra **“A comparative study of the financial performance of joint venture banks in Nepal especially on Nepal Arab bank ltd and Nepal Indosuez bank ltd”** an unpublished dissertation of Master degree TU, 1997.

Adhikari, Dev Raj, **“Evaluating the financial performance of Nepal bank limited”**, unpublished Master degree thesis TU-1993

Adhikari, Shreedhar -unpublished thesis **“A comparative study on financial performance of NSBIBL and Everest Bank”** 2001.

Amatya, Nagendra Bhadur, **“An appraisal of financial position of Nepal Bank Limited”**-unpublished MD Thesis –TU 1995.

Balaram Poudel entitle, **“A comparative financial performance analysis of Nepal SBI bank ltd and Nepal grind lays bank ltd”** unpublished Master degree’s 2000

Basnet, Jadesh, **“Portfolio Management of Joint Venture Bank’s in Nepal”**, MBS Thesis 2000.

Dhakal, Deepak, **“Financial performance and analysis of NABIL and NBBL,”** TU thesis 2004.

Gurung, Vikram Chandra , **“A financial study of joint venture banks in Nepal , A comparative study of Nepal grind lays bank limited and Nepal Indosuez bank limited”** –an unpublished Master degree’s TU 1995”

Hiralal Prasad, **“A comparative study on financial performance of NISBL and NGBL”**, unpublished master thesis, TU 1999.

Jha, Rista, **“A comparative analysis of financial performance of the selected J V Bank”** unpublished Master thesis, TU 1998

Joshi, Keshab Raj, **“A study on financial performance of commercial banks”** an unpublished master’s dissertation submitted to institute of management, T.U.kirtipur.1989”.

Kumar, Babloo, **“Investors’ Problems in Selecting Optimal Portfolio of Common Stock in NEPSE”** August 2004

D. ARTICLES:

Fabozzi, Frank J. and Harry M. Markowitz, “**Theory and Practice of Investment Management**” Business Week, September 2004

Shauna Croome, “**Rebalancing of Portfolio**”, Investopedia.com, 14th May 2004.

E. WEB SITES:

- www.everestbankltd.com
- www.standardchartered.com/np/
- www.bokltd.com
- www.nabil.com.np
- www.nabilbankltd.com
- www.nepalstock.com.np
- www.sebonep.com
- www.urb.org.np

F. OTHERS:

Annual Report, Nepal SBI Bank Ltd., FY 2005 to 2009

Annual Report, Everest Bank Ltd., FY 2005 to 2009

Annual Report, Standard Chartered Bank Nepal Ltd, FY 2005 to 2009

