

**A COMPARATIVE STUDY OF INVESTMENT POLICY OF
EVEREST BANK LIMITED AND NEPAL SBI BANK LIMITED**

A THESIS

Submitted by

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We have conducted the viva- voce of the Thesis

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DECLARATION

I hereby, declare that the work reported in this thesis entitled **A Comparative Study of Investment Policy of Everest Bank Limited and Nepal SBI Bank Limited** submitted to Research Department of Nepal Commerce Campus, is my original work done in the form of partial fulfillment of the requirements for the Masters of Business Studies (MBS) under the supervision of Dr. Sushil Bhakta Mathema and Mr. Madan Kandel of Nepal Commerce Campus.

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ABBREVIATIONS

A.D.	:	Anno Domini
B.S.	:	Bikram Sambat
C.V.	:	Coefficient of Variation
CB	:	Commercial Bank Development
CEO	:	Chief Executive Officer
DICGC	:	Deposit Insurance and Credit Guarantee Corporation
e.g.	:	For Example
EBIT	:	Earning before Interest and Taxes
EBL	:	Everest Bank Limited
EPF	:	Employees' Provident Fund
EPS	:	Earning Per Share
etc.	:	Et cetera
Fc	:	Foreign Currency
FD	:	Fixed Deposit
FY	:	Financial Year / Fiscal Year
GDP	:	Gross Domestic Product
govt.	:	Government
HBL	:	Himalayan Bank Limited
HMG	:	His Majesty's Government
i.e	:	That is
IBRD	:	International Bank for Reconstruction and
IMF	:	International Monetary Fund
IPO	:	Initial Public Offering
JVB	:	Joint Venture Bank
Ltd.	:	Limited
m	:	Million
MBS	:	Master's Degree of Business Studies
NBL	:	Nepal Bank Limited
NEPSE	:	Nepal Stock Exchange Limited
NIDC	:	Nepal Industrial Development Corporation
NRB	:	Nepal Rastra Bank
NSBIBL	:	Nepal SBI Bank Limited
P	:	Page
PNB	:	Punjab National Bank
pp	:	Pages
PPA	:	Power Purchase Agreement
RBB	:	Rastriya Banijya Bank
Rs.	:	Rupees
S.D.	:	Standard Deviation
SBI	:	State Bank of India
SEBON	:	Securities Board of Nepal
TU	:	Tribhuvan University
viz.	:	Namely
Vol.	:	Volume

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

"Economic development demands transformation of savings or investible resources into the actual investment. It is the financial institution that transfer funds from surplus spending units to deficit units" (NRB; 1996: 43).

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

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

The development of the country is always measured by its economic development through economic indices. Therefore, every country has given emphasis on enlistment of

its economy. Nowadays, the financial institutes are viewed as catalyst in the process of the economic growth and the mobilization of the domestic resources is the key factor in the economic development. The financial institutes act as intermediaries by transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, Commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country.

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

The onward movement of the country solely depends upon its economic condition. The farsighted infrastructure and well developed financial system of the country plays a key role to meet the expected goal for the betterment of the country as a whole. Financial institution gathers scattered financial resources form the mass and distributed fund from commercial and economic activities to develop trade, industry and facilitate a process of economic development.

A bank is an institution, which deals with money and credit. It accepts deposits from the public and mobilizes the fund to productive sectors. A commercial bank is a bank, which deals in exchanging currency, accepting deposits giving loans and doing commercial transaction. Commercial bank is a financial intermediary accepting deposits and granting loans. It offers the widest menu of services of any financial institution.

Commercial Banks are those Banks who pool together the saving of the community and arrange for their productive due. They supply the financial needs of modern business by various means. They accept deposit from the public on the condition that they are

repayable on demand or on short notice. Commercial Banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital, financing. They can't finance in fixed assets. They grant loans in the form of cash credit and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables financing advising etc to their customers.

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

According to **Section 2(a) of the Commercial Bank Act 2031 (1974)**, "Commercial Bank means a Bank which operates currency, exchange transaction, accepts deposit, provide loan; Performs, dealing relating to commerce except the Banks which have been specified for the co-operative, agricultural, industry of similar other specific objectives."

According to **Black's Law Dictionary**, "Commercial Bank means a Bank authorized to receive both demand and time deposit, to engage in trust services, to issue letter of credit, to rent time deposit boxes and to provide similar services."

Hence the term Commercial Bank, Joint Stock Bank and credit Banks are frequently used inter changeably. For e.g. in the context of English Banking system the terms "Joint Stock Banks" and "Commercial Bank" as distinguished from investment Banks although this distinction is often blurred in practice.

In this way, commercial Bank is different from central Bank and the distinction between the two terms is essentially based on their objects, while the primary objective of a commercial Bank is the maximization of profit, the central Bank is primarily concerned with the effects of its operation on the functioning of commercial Bank, their may central Bank comes out it any ordinary Banking business for the general public in complete. It confines it self mainly for controlling the operation of the Banking system in a country.

People keep their surplus money as deposits in the bank and hence bank can provide such funds to finance the industrial activities in the form of loans and advances. Commercial bank renders numerous services to their customer to increase their economic and social life. People are interested to invest in the bank for their wealth safety, good return and liquidity convenience.

An investment policy has played very important role in the development of the organization. Investment is the implementation of financial management decision, which is basically to operate in the financial sector. Investment always involves a certain amount of risk that is there is the chance that an investment will yield not a profit but a loss.

A good investment policy attracts both the borrowers and lenders which help to increase the volume and quality of the deposits, loans and investment. The bankers have the responsibilities of safe guarding the interest of the depositors, share holders and the society they are serving.

Commercial banks should formulate the sound investment policies to ensure maximum amount of investment to the entire sector with proper utilization and can be able to achieve its own objectives of profit maximization and social welfare.

1.2 Focus of the Study

Commercial banks are in the vast numbers, presently. There are altogether 32 commercial banks operating in the country. The large numbers of commercial bank is leading them to huge competition. There are various factors that can make a commercial bank leader in the market, but the commercial bank having a sound investment policy can lead the market. This study focuses on the investment policies of the commercial banks. The limited resources and time has lead to make this study, a comparative study of investment policy between two leading commercial banks of Nepal. This study focuses on the investment policy of Nepal SBI Bank Limited, and Everest Bank Limited

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Profile of Banks:

Nepal SBI Bank Limited

Nepal SBI Bank Ltd. is a subsidiary of State Bank of India which has 55 percent of ownership and rest is held by a local partner viz. Employee Provident Fund (15%) and general public (30%). In terms of the Technical Services Agreement between SBI and the NSBL, the former provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Chief Credit Officer oversee the overall banking operations in the Bank. The Bank was established in July 1993 & is now having 538 Nepalese employees working in 50 branches, 6 extension counters, 2 Regional Offices & the Corporate Office. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 with an Authorized Capital of Rs.120 Millions and was licensed by Nepal Rastra Bank on July 6, 1993. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbarmarg, Kathmandu. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006.

Capital Formation or Share Capital of the Nepal SBI Bank Limited

Share Capital	Amount
Authorized Capital	Rs 3,00,00,00,000
Issued Capital	Rs 2,10,29,65,166
Paid up Capital	Rs 2,09,39,89,769

In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team, Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Chief Credit Officer oversee the overall banking operations in the Bank.

ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public.

Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank has been focusing on expanding its operations outside Nepal and has identified some of the emerging economies which offer large business potential. Bank has also set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Punjab National Bank (PNB), is joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India With its presence virtually in all the important centers at India, Punjab National Bank has offers a wide variety of banking services

which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Share Capital of Everest Bank Limited.

Share Capital	Amount
Authorized Capital	Rs 2,00,00,00,000
Issued Capital	Rs 1,39,16,35,700
Paid up Capital	Rs 1,39,16,35,700

1.3 Statement of Problem

The numbers of commercial bank are growing day by day. In this context due to crisis in the political stability and other insurgencies had led down the economic growth, many business sectors are not doing well. There is high flow of fund in the market but the people are scared of investing their fund or saving due to unreliable and unsafe investment opportunities and projects.

Today new banks are being established and existing is opening their branches in the different areas. There is vast competition among the commercial banks. Commercial banks are at high time to focus their eyes for the better productive management for survival and growth.

Commercial banks also have lot of deposits and in comparison to it less good investment opportunities. Currently commercial are facing problem of investment being default. The political instability, poor management, recession, strikes and insurgencies are liable for the investment being default and in some cases credit clients are intentional defaulters. The central bank, Nepal Ratra Bank have been helping the commercial banks in this context and protecting their investments but in the same way commercial banks too must

have good plans for their investments. The investment policies of commercial banks must be in the favour of the nation's economic growth and their institutional growth.

“Liquidity is tight largely because commercial banks lack access to ready pools of cash, having converted too many deposits into loans. The credit-to-deposit ratio is 95 percent, nearly 20 per cent more than what is considered ideal. The quarter-on-quarter growth rate of loans is four percent higher than that of deposits.” Pant, S. D. (2010 A. D), Money Matters.

“Banks in Nepal seem to be thriving. According to Nepal Rastra Bank, Nepali commercial banks hold close to Rs 470 billion in deposits, but for banks to be profitable they have to put this deposit to work. Given the poor business climate and soaring property prices, it is a fair guess? This cash is feeding the real estate bubble. Such a bubble driven by excess credit fueled liquidity is exactly what brought many US banks to their knees, and there is a good lesson there for us.”

We are inside a real estate bubble in Nepal, and this bubble could burst. Among other things, the excess cash available to drive prices higher may not be there in the future. The global economic slowdown is already impacting on the remittance flow into Nepal which will reduce the liquidity in the banking sector and the money chasing real estate assets. When the bubble bursts, not only will many Nepalese feel much poorer from reduced property prices, but their deposits in banks could also be at risk if banks that are overexposed to real estate lending face defaults, threatening their ability to meet obligations to depositors. The margin of error for Nepali financial institutions, and the public, is very small. Unlike most other countries, there is no established deposit insurance program in Nepal and it is questionable that Nepal Rastra Bank has the ability to manage a run on the banks.” Sitaula, Raju (2010 A.D.), Banking on Real Estate.

“We find our economy in jeopardy; our remittances have decelerated, our balances of payments are in the negative and our banks are facing a liquidity crunch. And everyone is talking about the real estate bubble, which hasn't quite factored in, as of yet, to the crisis.

The question is whether the ripples of the international crisis have finally caught up with us or have our problems been home grown due to continuous neglect of the economy by successive governments. In any economy there has to be some generation of wealth for it to prosper. Remittances from abroad for us have been the sustaining factor. Due to lack of investment areas, ours has been a consumer driven economy. Statistics show that we only save 8 per cent of the GDP and spend 92 per cent. A result of this spending is the massive foreign trade deficit of about Rs 100 billion. The export-import ratio stood at 84:16. The price increase in the urban real estate and until recently speculation led by easy credit has unrealistically hiked all areas relating to land purchase. An area that has gone unregulated, the cooperatives are said to have invested many folds more than the banking sector in real estate. There are no data to corroborate this. Furthermore, the housing sector is not an unproductive sector as it employs many through the employment of and investment in peripheral industries. Real Estate speculation is unproductive and has rightly been curtailed due to tightening of credit by the banks and financial institutions. Investment in gold is unproductive and more so when the national reserves of foreign currency is being depleted for the purpose. The question of liquidity crisis has been the topic in recent days. There have been many misnomers about the liquidity crisis. Banks' investment into real estate alone does not cause a liquidity crunch." Pandey, S. R. (2010 A.D), Days ahead are not easy for the banking fraternity.

The problems related to investment function of commercial banks of Nepal have been presented briefly as under:

- To know what the condition of two banks?
- Are fund mobilization and investment pattern of NSBL and EBL more effective and efficient?
- Is there any stability in fund mobilization & investment practices of NSBL and EBL?
- What is the relationship between investment & loan and advances with total deposit and net profit?
- Does the investment decision affect the total earning of the bank or not?

1.4 Objectives of the Study

Commercial Banks are established with the intention of earning profit and economic development of the country through providing investment facilities. Financial Analysis is tools for measuring the success of any business performance. All the detail financial information of bank is shown by the financial analysis. The basic objectives of the study are to examine and evaluate the investment policy of Nepal SBI Bank Limited and Everest Bank Limited.

- To compare the liquidity, asset management efficiency, profitability and risk position of Nepal SBI Bank Limited and Everest Bank Limited,
- To analyze the growth rate of bank in terms of deposit, loan and advances investment and profitability of the banks,
- To evaluate the trend of deposit, investment, Loan & advances, and net profit and their projection for next five years of NSBL and EBL.
- To provide suitable suggestion and recommendation for the improvement of the banks performance,

1.5 Significance of the Study

Good and optimal fund mobilizing policy depicts the health of the banks. This would make a good impact on economy of a country if the banking sector poses a firm and by astronauts' behavior that is only possible when the fund mobilizing policy of the banks consider customer, national and government interest. The proper mobilization & utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic prosperity of the nation. The success and prosperity of the banks relies heavily upon the successful formulation and effective implementation of investment practices.

The significances of the study are pointed out below:-

- The study helps to know how well the banks (NSBL and EBL) are utilizing their deposits.

- The study is important to policy makers and academic professionals to formulate policies and plans on the basis of the performance of these banks.
- The study helps these banks to compare each other's performance and plan accordingly for future.
- The study helps these banks to make sound programs and policies based on the recommendation suggested.
- The study guides to investors, customers (depositors, loan takers as well as other types of clients), competitors, personnel of the banks, stockbrokers, dealers, market makers, etc. to take various decisions regarding deposits and borrowings.
- Moreover, the study will be fruitful to students and various other groups having interested in banking sectors. The study will help to increase their knowledge regarding deposits, fund and its utilization and investment situations of Nepalese commercial banks.

1.6 Limitations of the Study

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

- Study has been limited to the investment policy of Nepal SBI Bank Limited and Everest Bank Limited among all the 32 Commercial Banks,
- Study analyzes data of last five annual reports of the respective banks,
- Data used in this study are secondary data which have been retrieved from the annual reports and other sources,

1.7 Organization of the Report

The study has been organized into five chapters. They are as follows:

Chapter I: Introduction

This is the introductory chapter, which has covered background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study etc.

Chapter II: Review of Literature

This chapter has included conceptual framework i.e. theoretical analysis and review of related different studies. In this chapter, it has been attempted to show how this present study is different from previous studies.

Chapter III: Research Methodology

This chapter has dealt with the research design, population and sample, sources of data, data collection techniques and data analysis tools (financial tools and statistical tools) and methods of analysis and presentations.

Chapter IV: Presentation and Analysis of Data

This chapter describes the research methodology employed in the study. It has included secondary data and primary data presentation, data analysis, interpretation, testing of hypothesis and major findings.

Chapter V: Summary, Conclusion and Recommendations

The last chapter states the summary, conclusion of the whole study and recommendations. It also offers several avenues for future research. The exhibits and bibliography are incorporated at the end of the study.

CHAPTER 2

REVIEW OF LITERATURE

Review of Literature is the study of previous research, article or book previous thesis in the related field or topics for finding the past studies conclusion and deficiencies that may be known for further research.

2.1 Conceptual Framework

2.1.1 Evolution of Bank

The evolution of banking industry had started a long time back, during ancient times. As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 AD was the first public banking institution. The later the bank of Barcelona and the Bank of Genoa have been established in 1401 AD and 1407 AD respectively. The bank of Venice and the Bank of Genoa continued to operate until the eighteenth century, with the expansion of commercial activities. In Northern Europe there sprang a number of private banking houses. Slowly it spread through out the world.

2.1.2 Development of Banking Industry in Nepal

Establishment of banking industry in Nepal is very recent. In the ancient time, there are money transaction but were not much regularized due the lack of banking concept among the people and administrators. In the year 1877 AD the government established “Tejarath Adda” which played vital role in the banking development and banking system of Nepal. This institution named “Tejarath Adda” helped general public to provide credit facilities at a very low rate of 5 percent interest rate. “Tejarath Adda” distributed credit facilities to the public especially on the collateral of gold and silver.

Several branches were open in different part of the country. Hence the establishment of Tejarath Adda could be regarded as pioneer foundation of banking in Nepal. It was running smoothly for few decades.

The main defect of this institution was that there were no efforts to expand the services, and no other financial institution has set up. Tejarath Adda also don't accept any deposits from public on the absence of saving money the Adda faces the financial crisis to provide the credit and other services, after that again several unorganized and money lender are flourishing their credit and services to the general public, the government started to do the trade with India and Tibet. In the year 1936 AD, Udyog Parisad (Industrial Development Board) was been established. (Singh, 2063:23)

In the year 1937 AD Udyog Parisad have reformed its name in to Nepal Bank Limited and formulated the company act. This was the first commercial bank in Nepal. Rastriya Banijiya Bank was established in the year 1965 AD as the second bank of the country.

Rastriya Banijiya Bank being the largest commercial bank plays the major role in the economy. The financial shape of the two old banks has a tremendous impact on the economy. The modern banking practice began between the First and Second World Wars.

Nepal Bank Limited was the first commercial bank and was also the first joint venture bank of the government and the private sector. Earlier banks were different from modern commercial banks in many respects. The banks which operated in the past combined central banking function such as issue of currency with commercial banking operation like accepting deposit and financing business.

2.1.3 Commercial Bank

Commercial banks are the major component in the financial system. They work as intermediary between depositors and lenders and facilitate in overall development of the economy of the country and earning profit for the wealth maximization of all its stake holders.

Commercial bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing overall economic development. The bankers have the responsibility of safe guarding the interest of the depositors, the share holders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy, intermediation, and transformations, facilitating payments flows, credit allocation and maintaining financial discipline among borrowers.

According to Nepal Company Act 2031 BS, “A commercial bank refers to such types of bank which deals in money exchange accepting deposits, advancing loans and commercial transaction except specific banking related to co-operative, agriculture, industry and other objective.”

“Commercial Bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its service.”
Principle of Bank Operations, American Institute of Banking, USA-1972.

The operation of commercial bank is one of the economic activities of a country. In terms of income generation activity, it may be compared with any other venture of business. However the banking business is very distinct as compared with any other business. The main function of commercial bank is the accumulation to the temporarily idle money of the general public for trade and commerce. Its main function is to accept deposits, advancing loans, act as an agency services, exchange and purchase currency, overseas trading services and other service. The lists of licensed commercial banks currently providing service in the Nepalese market are detailed in annexure 1.

2.1.4 Investment

In general sense investment means to pay out money to get more. But in the broadest sense, investment means the sacrifice of current dollars for future dollars. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the

magnitude is generally uncertain. It is commonly known fact that an investment is possible only when there is adequate saving therefore, both saving and investments are interrelated.

Investors also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and factors some scholars have given the actual meaning of investment, which are as below:

“An investment is a commitment of money that I expected to generate additional money. Every investment entail some degree of risk, it requires a present certain sacrifice for a future uncertain benefit.”(Francies,1988:421)

The World Book Encyclopedia, “Investment buy individual, business and government involve a present sacrifice of income to get an expected future, benefit as a result investment raises a nation standard of living.”

From the above definitions we can conclude that investment means use of rupee of amount today by expectation of more income in future. It is clear that investment is the utilization of funds with expected additional return in future.

The saving done by the investor may be affected by taxes, inflation, depression, labor relation, government action plan and other social phenomena. Some time we may get negative return also, if wrongly invested without sound knowledge of investment and their related factor.

Investment has to undergo various types of risk of business risk. Possibility of being wane in earning power of investment due to competition, uncontrollable costs, change in demand, market risk possibility of strong change in market price and collateral value of securities and real properties, therefore making investment is not sufficient one should follow sound investment policy.

Above mentioned definition of different authors about investment clarify that investment means to trade money for expected future stream of payment of benefits that will exceed the current cash outflow which is the benefit to the investors for sacrificing the time and commitment or due to uncertainty and risk factors. Financial institutions must be able to mobilize their deposit collection funds in profitable, secured and marketable sector so that they can earn good return on their investment.

2.1.5 Features of Sound Investment or Fund Mobilizing Policy

The main earning of any banks basically depends upon its, lending policy, lending procedure and investments its fund in different securities and different sector of market. The greater the credit created by the bank, the higher wins the profitability. A sound investment policy is not only prerequisite for bank profitability but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Some principals for sound lending as fund mobilizing policy which most of the banks must consider can be explained as under.

Safety and Security

The banks should never invest its funds in those securities, which are subject to too much depreciation and fluctuation because a little difference may cause a great last, It must not invest fund in speculative businessman who may be bankrupt a once and who may earn million in a minute also. The bank should accept that types of securities, which are commercial, durable, marketable and high market prices. In this case 'MAST' should be applied for the investment, (Baxely,1987:253)

Where

M = Marketability

S = Stability

A = Ascertain ability

T = Transferability

Profitability

A commercial bank can maximize its value of wealth only through maximization of return on their investment and lending. So they must invest their fund where they gain maximum profit. The profit of the commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

Liquidity

Liquidity refers to that state of position of a bank that pronounces its capacity to meet its entire obligation. In these words, it refers to the capacity of bank to pay cash against deposits. People deposit money at the bank in different accounts with the confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess and in different securities as at the time of lending. So it can meet current or short-term obligation when they become due for payment.

Purpose of Loan

Customer has needed a loan for different purpose. Why is a customer in need of loan? This is a key question. If customer misuses the loan granted by the bank, they can never repay and bank will possess heavy bad debts. Detailed information about the scheme of project or activities should be examined before lending.

Diversification

A bank should minimize its risk in every sector of investment. To minimize the risk, a bank must diversify its investment on different sector. Diversification of loan helps to sustain loss according to the law of average because if securities of company deprived. There may be appreciation in the securities of other companies. In this way the loss can be recovered.

Tangibility

Though it may be considered that tangible property does not yield an income apart from direct satisfaction of possession of property, many times intangible securities have last

their value to price level inflation. Commercial banks should prefer tangible security to intangible one.

Legality

Illegal securities will bring out many problems for the investors. Commercial banks must follow the rules and regulation as well as different direction issued by Nepal Rastra Bank, ministry of finance and other while mobilizing its funds.

2.1.6 Some Important Terms

In this section of the study, efforts have been made to clarify the meaning of some important terms frequently used in this study. They are presented below.

Loan and Advances

Loan, advances and overdrafts are the main sources of income for a bank. Bank deposit can be crossed beyond a desired level but the level of loans, advances and overdraft will never cross it. The facilities of granting loans, advances and overdraft are also the main services in which customer of the bank can satisfy.

Funds borrowed from banks are much cheaper than borrowed from unorganized moneylenders. The demand for loan has excessively increased due to cheaper interest rate. Further, an increase in economic and business activities always increase the demands for funds. Due to limited resources and increasing for loans, there are some fears that commercial collateral while granting loans causing unnecessary botheration to the general customers. Such loans from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. These are the undesirable effects of too low interest rate.

In addition to this, some portion of loan, advances and overdraft includes that amount which is given to staff of the bank as houses loan, vehicle loan, personal loan, social loan, consumer loan and other. In mobilization of commercial bank fund, loan, advances and overdraft have occupied a large portion.

Investment on Government Securities, Shares and Debentures

Though a commercial bank can earn interest and dividend from the investment on government securities, shares and debenture, it is not the major portion of income. But it is treated as a second source of banking business. A commercial bank may extend credit by treated as a second source of banking business. A commercial bank may extent credit by purchasing government securities, bond and debenture, and shares for several reasons; some of them are given as:

- It may want space to maturate so that the inflow of cash coincides with expected with draws by depositor or large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if it's primary of reserves become inadequate.
- It may also be forced to invest because the demands for loans have decreased as is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view to nature of bank's liabilities. Since depositors may demand funds in great volume without previous notice to banks, the investment must be of a type that can be marked quickly with little or no shrinkage in value.

Investment on Other Company's Shares and Debentures

Due to excess funds but least opportunity to invest these funds in much more profitable sector and to meet the requirement of NRB'S directives, many commercial banks have to utilize their funds to purchase share and debenture of many other financial and non-financial companies. Nowadays most of the commercial have purchased regional development banks, NIDC'S and other development bank/s share.

Other use of Funds

Commercial banks shall maintain the mandatory balance at 5.5% of their total deposit liabilities. Similarly, they have to maintain the cash balance in local currency in the vault

of the bank. Again some part of the funds should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

Deposits

Commercial Bank Act 2031 (1974) defines deposit as the amounts deposited in a current, saving or fixed accounts of a bank or financial institution. For Commercial banks, deposit is the most important sources of the liquidity. For bank's financial strength, it is treated as a barometer. In the words of Eugeve "A bank's deposits are the amount that it owes to its customer." Deposits are the life blood of the commercial banks. Though they constitute the great bulk of banks liabilities the success of bank greatly depends upon the extent to which it may attract more and more deposits. For accounting and analyzing purpose, deposits are categorized in three titles.

- Current Deposits
- Saving Deposits
- Fixed Deposits

Off Balance Sheet Activities

Activities involving contracts for future purchase or sale of assets and all these are contingent obligation and are also the Off Balance Sheet activities. These are not recognized as assets or liabilities on balance sheet. Some examples of this item are Letter of Credit. Letter of guarantee and bills of collection etc., These activities are very important as they are main source of profit of bank though they have risk now a days some economist and financial experts highlight such activities for the expansion of transaction of modern bank successfully.

2.1.7 NRB Guidelines affecting Investment and Fund Mobilizing Policy of Commercial Banks

1. As per NRB guidelines, Bank's exposure on "Productive Sector (Agriculture, Power, Tourism and Cottage and Small Scale Industries) is required to reach 20% of total loan total loan & advances within the next three years i.e. F/Y 2069-70.

2. Provision for investment in priority sector NRB has directed to commercial banks to extend at least 12% of its total outstanding credit to priority sector.
3. Provision for investment in deprived sector to banks are required to disburse credit to the deprived sector at the following stipulated ratio.

Name of the Banks	Required Deprived Sector Lending as % of total outstanding credit
Commercial Banks	3%
Development Banks	2.00%
Finance Companies	1.50%

Source: NRB Unified Directives 2067

4. Licensed institutions shall implement the interest rates for deposits and lending, procedures for calculation of interest, penal interest, commission and services only after approval. The institutions cannot vary the interest for deposits in excess of 0.5% over the published rates.
5. Directive to raise capital fund all commercial banks are directed to raise their capital funds at a minimum level of Rs. 2000 million.
6. Maintenance of Liquidity in NRB

Group	Total Deposit
A, B & C institutions	5.5%
B and C class institutions accepting current a/c deposit	5.5%
B and C class institutions accepting deposits other than current a/c deposit)	2%

Source: NRB Unified Directives 2067

7. Maintenance of Minimum Capital Fund

Group (institutions)	Required capital fund on the basis of weighted risk assets (in %)	
	Core capital	Capital fund
A	6.00%	10%
B and C	5.50%	11%
D	4%	8%

Source: NRB Unified Directives 2067

8. Loan classification and loss provision, NRB has directed to classify their outstanding loan and advances, investment and other assets into four categories.

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

Source: NRB Unified Directives 2067

- For the loans that have been insured in Deposit and Credit Guarantee Corporation (DICGC), only 25% of the insured percentage shall be maintained i.e. (0.25 % for pass loan, 6.25% for Sub-standard, 12.5% for doubtful & 25% for the Loss).
 - For the loans that have been rescheduled or restructured into pass loan, 12.5% of provisioning shall be done. If the payment of principal and interest for the rescheduled or restructured loan is regular for 2 years, it can be converted in pass loan. The loan granted to the investors investing in Initial Public Offering (IPO) cannot be rescheduled or restructured
9. With the objective of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrowers to the bank loans, NRB has directed commercial banks to set an upper limit for single borrower limit. According to the directive, with effective from Magh 1, 2067 (January 15, 2010) commercial banks may extend credit to single borrower or group of related borrowers in such a way that the amount of Fund Based Loans and Advances and Non Fund Based Off-Balance Sheet facilities like letters of credit, guarantees, acceptances, commitments up to 25% of its Core Capital Fund.

How ever, NRB has made special arrangement regarding investment in Hydropower project, Electricity transmission line and construction of cable car project. Commercial banks may lend up to 50% of their core capital as funded as well as non funded facilities. But, in the case of investment of more than 25% of core capital, there shall be compulsorily be Power Purchase Agreement (PPA) signed with the concerned entity.

10. Margin Lending

Loan against the pledge of shares of companies listed in Nepal Security Exchange Limited in the nature of margin lending may be extended up to 50% of the average value of the pledged shares as calculated on the basis of closing price of previous 180 working days or 50% of prevailing market price of shares, whichever is lower. Once the loan has been extended either the upward revision on the credit limit or grant of additional credit shall not be allowed by way of revaluing the value of such pledged shares.

The tenor of such loan shall not exceed one year. Where the borrower enjoying margin type lending repays at least 25% of the total loan and there are no dues in interest, the margin lending against pledge of shares may be renewed up to 75% of the balance principal amount.

2.2 Review of Related Studies

2.2.1 Review of Books

Banks are such an institution, which deals with credit and substitutes for money. They deal with credit and instruments. In modern era good circulation of credit is important for any bank or other financial intermediates (commercial banks, joint venture banks, finance companies, development banks, co-operatives etc.). Banks cannot get its aim of profit earning without mobilizing its fund in right sectors and different activities. Many types of activities and other things can originate for the purpose of receiving investment from the finance company.

According to **William F. Sharpe, Gordon T, Alexander and Jeffery V. Bialy**, “Investment in a broaden sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes places in the present and its magnitude as generally uncertain.”

In the words of **Gitman and Joehnk**, “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.”

The term investment can cover a wide range of activities. It often refers to investing money in certificate of deposits, bonds, common stocks or mutual funds. Expert investors would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompasses very conservative position and aggressive speculation.

Frank K. Reilly defines investment as, “An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of funds.”

According to **I. M. Pandey**, “In 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, investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder’s funds maximization. Investments will all to the shareholders wealth if it yield benefit in excess of the minimum benefits as per the opportunity cost of capital.”

Emphasizing the importance of investment policy, **H. D. Crosse** puts his view in this way, “Lending is the essence of commercial banking and 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 creation function effectively and minimize the risk inherent in any extension of credit.”

S. P. Singh and S. Singh, “The investment or credit policies of banks are conditional, 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 bank’s credit policy also in mind.”

According to **Mr. Shakespeare Baidhya**, “A sound investment policy of a bank is such that 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 loans that have become uncollectible due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds.”

2.2.2 Journal and Articles

Various articles were published on financial impact, which deals in the context of Nepalese Commercial Banks and financial sector of Nepal some of the articles are reviewed briefly.

Morris (1990), in his discussion on “Latin American Banking System in the 1980’s” has concluded that most of the bank concentrated on compliance with central bank rules on reserve requirement credit allocation (Investment Decision) and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked. He further add that miss management in financial institution has involved inadequate and over optimist loan appraisal high risk diversification of loan portfolio and investment high risk concentration related parties lending etc are major cause of investment and loan that has gone bad.

Bajracharya (1991), has mentioned in his article “Monetary Policy and Deposit” mobilization in Nepal has concluded that the mobilization of domestic saving is one of

the monetary policies in Nepal, for this purpose commercial banks stood as the vital and active financial intermediary for generating resource in the form of deposit of the private sector so far providing credit to the investors in different aspect of the economy.

Shrestha (1998), in her article “Lending operation of commercial banks of Nepal and its impact of gross domestic product (GDP)” has presented with the objectives to make an analysis of contribution commercial banks lending to the gross domestic product of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending such as agriculture, industrial, commercial service, general and social sector as independent variables a multiple regression techniques has been analyzed in the contribution. The multiple analysis have shown that all the variables except service sector lending have positive impact of GDP. Thus, in conclusion she has accepted the hypothesis i.e. there has been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Chopra (1999), in his article, “Role of foreign banks in Nepal” has concluded that the joint venture banks are playing increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

Pradhan (2003), in his research paper, “Role of saving investment and capital formation in Economic Development – A case of Nepal” has studied about the strong role and impact of saving, investment capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has collected for the period of 1974-75 to 2000-01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression equation used in this study have been estimated at current prices as well as in real terms with the entire study period divided in to different sub period.

The result presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The result of the empirical analysis led to there important conclusions. First saving, investment and capital formation have positive impact on economic development. Second the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third there is strong role played by saving and capital formation on economic development while weak-role played by investment.

L. D. Mahat (2004), in his article “Efficient Banking” he has accomplished, efficiency of banks can be measured using different parameters. The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quantity of inputs employed and the quantity of outputs produced. An increase in productivity means that more output can be produced from the same inputs or the same outputs or the same outputs can be produced from fewer inputs. Interest expense to interest income ratio shows the efficiency of banks in mobilizing resource at lower cost and investing in high yielding asset. In other words, it reflects the efficiency in use of funds.

According to Mr. Mahat, the analysis of operational efficiency of banks will help one in understanding the extant of vulnerability of banks under the changed scenario and deciding whom to bank upon. This may also help the inefficient banks to upgrade their efficiency and be winner in the situations developing due to slowdown in the economy. The regulators should also be concerned on the fact that the banks with unfavorable ratio may bring catastrophe in the banking industry.

2.2.3 Review of Thesis

Investment Policies have been studied by many individuals and various organizations. These studies have their own status because sof the nature of study, objective of study, area of study and other variables which have been sought for, from the specific study.

Some of them are related to this study report are considered as reference to this study report. They are:

A study done by **Mrs. Shrestha, Sunity (2042 B.S)** entitle with “A study on deposit mobilization and utilization of commercial banks with reference to NBL” with the objectives is:

- i. To sketch the deposit mobilization of NBL.
- ii. To analyze the impact of interest rate in deposit mobilization.
- iii. To analyze the impact of branch expansion on the deposit mobilization.

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

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

A study done by **Mr. Banti, Gupta (2007)** entitle with “Deposits and reinvestment problems of Nepalese Commercial Banks” said that strengthening and the institutionalization of the commercial banks is very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms is also needed such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB, diversity scope of

activities for commercial banks, professional culture within commercial banks, etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

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

A study done by **Mrs. Shrestha Dina (2008)** entitle with “Investment Analysis of Commercial Banks” (A comparative study of Himalayan Bank Limited and Nepal State Bank of India Limited).

The objectives of the study were:

- To analyze percentage of investment made by HBL & NSBIL in total investment made by commercial banks.
- To analyze investment trend, deposit trend and total income and their projection for next five years of HBL & NSBIL and compare them.
- To identify investment sector of HBL & NSBIL.
- To evaluate the liquidity, assets management efficiency and profitability and risk position of HBL in comparison to that of NSBIL.
- To study the relationship between the investment and deposit of the bank.

The major finding of study was as follows:

- Percentage of HBL’s investment to total commercial investment in extremely higher than NSBIL.
- Both HBL & NSBIL have invested mostly on government securities but HBL has invested in NRB bonds also as well as in other productive sector.
- NSBIL is better than HBL from liquidity point of view.
- HBL has higher profitability than NSBIL.
- HBL is exposed to more risk than NSBIL.

- HBL has maintained higher growth rate in net profit in comparison to NSBIL.

A study done by **Mrs. Bhattarai, Prakirti (2009)** entitle with “Investment policy Analysis of Joint Venture Banks (With special reference to BOK, NSBIL & EBL)”.

The objectives of the study were as follows.

- To evaluate the liquidity management, assets management efficiency, profitability position, investment practices of BOK, NSBIL & EBL.
- To find out the relationship between deposit and total investment, deposit and loan and advances, and net profit and outside assets.

His major findings enumerated below:

- NSBIL has better liquidity position. It is in a good position to meet its daily cash requirement and current obligation. Liquidity position of EBL & BOK has not been satisfactory.
- NSBIL’s loan and advance to total deposit ratio is lower than EBL & BOK. It does not seem to follow any definite policy regarding the management of its assets.
- The profitability position of all the banks is not satisfactory. The banks have not adopted sound investment policy in utilizing their surplus funds.
- BOKL & EBL are exposed to high credit risk and capital risk.
- NSBIL & BOK have not been successful to increase their sources of fund. EBL has been successful in maintaining its higher growth rate of total deposit.
- There is significant relationship between total deposit and total investment of BOK & EBL but the same is not significant in case of NSBIL.

A study done by **Thapa Neeta (2010)** entitle with “Investment policy of commercial banks in Nepal).

The objectives of the study were as follows:

- To discuss fund mobilization and investment policy of EBL in respects to its fee based off balance sheet transaction and fund based on balance sheet transaction of NIBL & BOK.
- To evaluate the liquidity, efficiency, profitability, and risk position.
- To evaluate the growth ratios of loan and advances and total investment with other variables.
- To analyze the trend of deposits utilization towards total investment and loan and advances and its projection for next five years.
- To conduct the hypothetical test to find out whether there is significant difference between the important ratios of EBL, NIBL & BOK.
- To provide packages of workable suggestion and possible guidelines to improve investment policy of EBL and other banks.

Her major findings were enumerated as below:

- EBL is comparatively better than NIBL & BOK in terms of liquidity.
- EBL has been less successful than NIBL & BOK in its on balance sheet operation as well as off balance sheet activities.
- The profitability position of EBL is worse than NIBL & BOK.
- EBL is more exposed to more credit risk and capital risk, but lower interest rate risk than NIBL & BOK.
- EBL has maintained high growth rates in total deposits, loan and advances but it has moderate position in investment.
- There is significant relationship between deposit, loan and advances and outside assets and net profit of EBL.

A study done by **Pudaisaini, Gangaram (2011)** entitle with “An Investment analysis of RBB in comparison with NBL”.

The specific objectives of the study were:

- To evaluate liquidity, profitability and activity ratios of RBB in comparison with NBL and industry average.

- To analyze relationship of loan and advance and total investment with total deposit and net profit of RBB and to compare it with that of NBL and industry average.
- To use trend analysis to compare loan and advances, total investment, total deposit and net profit and compare the same with NBL.
- To examine the loan loss provision of RBB and NBL.
- To provide the suggestion and recommendation on the basis of findings.

The major findings of the study were:

- RBB has good deposit collection, enough loan and advances and investment in government securities. It has comparatively better liquidity position than NBL.
- RBB is in comparatively better position regarding loan and advances but it does not have good position regarding investment in shares and debenture of other companies, off balance sheet operation. Loan loss ratio shows low quality of loan and advance.
- The profitability position of RBB is worse. RBB needs to take immediate steps to increase its profitability.
- There is significant relationship between deposit and loan and advance. There is insignificant relationship between deposit and investment, and outside assets and net profit.

A study done by **Shrestha, Bishownath (2012)** entitle with “Investment portfolio analysis of JVB’s”.

The specific objectives of the study were:

- To analyze the risk and return ratios of commercial banks.
- To evaluate the financial performance of JVB’s.
- To provide suggestion package based on the analysis of data.
- To study existing investment policies taken by NIBL in various sector.
- To study portfolio structure of NIBL in investment as compared to other JVB’s.
- Preference given by NIBL for investment between, loan investments, investment in real fixed assets, investment in financial assets.

The main findings of the study were:

- BOK has highest return on shareholders' fund and total assets. It has also been successful in mobilizing its deposits as investments. NIBL and EBL have invested high amount of deposits as loan and advances in comparison to BOK, NIBL and HBL.
- Among the JVB's, looking at investment portfolio, EBL has invested highest amount of funds in government securities, NIBL has invested highest amount of funds in NRB bonds in comparison to other JVB's.
- BOK has highest EPS and EBL the lowest EPS among the JVB's.

2.3 Research Gap

There is a certain gap between the present research and past research. Previous several researches are done in this topic called "Investment portfolio Analysis". The information of this very research is also based on secondary y data as well as primary data, but many effective tools and techniques are used to get the desired result as per the objective of this study. To analyze the facts financial tools as well as statistical tools were used to get the desired objective of the study. Financial tools include ratio analysis and the statistical tools include mean, standard deviation, coefficient of variation, and correlation of coefficient analysis and also include trend analysis. In present context, these are the heart issue in Nepalese commercial banks. The previous researchers could not submit the present fact. This research will deliver the answer to the recent questions and it will also give the latest information about the current practices of concerned commercial banks.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is the process of arriving at the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. It is the plan, structure and strategy of investigations conceived to answer the research question or test the research hypothesis. Research design is used to control variance (Wolff & Pant, 2003). It includes different dependent & independent variables, types of research design, research questions and hypothesis sample, data collection activities, technique of analysis etc.

3.1 Research Design

This study is analytical in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw relevant conclusion.

The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them, they are derived with the help of some financial and statistical tools were adapted to evaluate the investment policy of joint venture banks viz. Nepal SBI Bank Limited and Everest Bank Limited.

Finally research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. To achieve this study descriptive and analytical research designs have been used.

3.2 Population and Sample

Under the study of investment policy of Nepalese commercial banks, the total number of commercial banks including domestic and joint venture banks operating in the Nepal is the population. At present there are thirty two commercial banks are running in Nepal

(NRB). All 32 licensed Nepalese CBs consider as the total population out of them this study will be concern with two CBs as a sample by using convent sample method. In the sample, banks are taken according to their rapid growth rate & gradually growth rate which head office is in Kathmandu by which we can compare about the investment policy of this bank. For this population Nepal SBI Bank Limited and Everest Bank Limited. have been selected as sample and its data related to investment policy are comparatively studied.

3.3 Nature and Sources of Data

This study mainly based on secondary data of the Commercial banks, Nepal Rastra Bank, SEBO, and different library are the providers of the data. The review of literature of the proposed study was based on the text books, official publications, journals, unpublished thesis, web site etc. The necessary data and information at macro level have been collected from relevant institutions and authorities such as NRB Ministry of Finance, NEPSE, SEBON and their respective publications similarly the required micro level data derived from annual reports of selected banks, SEBO and NEPSE. In addition to above, supplementary data and information were collected from different library such as library of Shankar Dev Campus, T.U. Central library, SEBO etc. The major sources of data and information are as follows;

- NRB Economic Report, NRB
- Non-Banking Financial Statistics, NRB
- Banking and Financial Statistics, NRB
- Economic Survey, Ministry of Finance
- Annual Reports of Concern Commercial Banks (from 2005/06 to 2009/10)
- Annual Report of SEBO Nepal
- Trading Report of NEPSE
- Journal of Finance
- Journal of Business
- Previous Research Studies, Dissertation and Articles on the Subject
- Various Text Books

- Different Library
- Different Website Related to study

3.4 Methods of Analysis

To achieve the objective of the study, various financial and statistical tools have been used. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as percentage, graph are used in this study. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

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

3.4.1 Financial Tools

Financial tools are used to examine the strength and weakness of banks. In this study financial tools like ratio analysis and financial statement analysis have been used.

Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's to it overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

A. Liquidity Ratios

Liquidity ratios are used to judge the ability of banks to meet its short- term liabilities that are likely to mature in the short period. From them, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of

adversities. It is measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

“Liquidity ratios examine the adequacy of funds, the solvency of the firm's ability to pay its obligation when due (Hampton, 1999)”. Various types of liquidity ratios are applied in this study, which is explained below:

i) Current Ratio

The current ratio is the ratio of total current assets and current liabilities. It shows the relationship between current assets and current liabilities.

Mathematically it is represented as:

$$\text{Current ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Where,

Current assets include cash and bank balance, money at call or short-term notice, loans and advances, investment in government securities and other interest receivable and miscellaneous current assets where as current liabilities include deposits and other accounts of short-term loan, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

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

ii) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

Where, total deposits consist of deposits on current account; saving account; fixed account, money at call and other deposits.

iii) Cash and Bank Balance to Current Assets Ratio

This ratio measures the percentages of liquid assets i.e. cash and Bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand.

$$\text{Cash \& Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

Hence, cash and banks balance includes cash in hand, foreign cash and foreign banks.

iv) Investment on Government Securities to Current Asset Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows,

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

v) Total Deposit to Total Working Fund Ratio

This ratio is used to find the percentage of total deposit on total working fund. This ratio can be calculated dividing the amount of total deposit by total working fund and can be stated as follows,

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

B. Assets Management Ratios (Activity Ratios)

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources .The following financial ratios related to investment policy is calculated under asset management ratio and interpretations are made by these calculations.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total collections/deposits on loan and advances for the purpose of earning profit.

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

ii) Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning money. This ratio includes how properly firms' deposits have been invested on government securities and shares and debentures of other companies. This ratio can be computed dividing total amount of investment by total amount deposit collection, which can be shown as;

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

iii) Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan and advances. Loan and advances amount by total working fund. That is formulizing as;

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

Where, total working fund include total amount of assets given balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e., letter of credit, letter of guarantee etc.

iv) Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by;

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

v) Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows the investment of Banks and finance companies on the shares and debentures of obtained dividing on shares and debentures by total working fund. That can be calculated as;

Investment on Shares and

$$\text{Debentures to Total Working Fund Ratio} = \frac{\text{Investment on Share \& Debenture}}{\text{Total Working Fund}}$$

C. Activity ratios

Activity ratios measure the performance efficiency of an organization from various angles of its operation. These ratios indicate the efficiency of activity of enterprises to utilize the available funds, particularly short term funds. These ratios are use to determine the efficiency, quality and the contribution of loan and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

i) Loan loss provision to total loans and advances ratios:

This ratios describes the quality of assets that bank is holding. Nepal Rastra Bank has directed the commercial banks to classify its loan and advances into the category of pass, sub standard, doubtful and loss on the basis of maturity of principal to make the provision of 1, 25, 50 and 100 percentages respectively. The provision for loan loss reflects the increasing probability of nonperforming loans in volume of loan and advances. This ratio is calculated by dividing the loan loss provision by total loan and advances as presented as under.

$$\text{Loan Loss Provision to Total Loans and Advances ratios} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan and Advances}}$$

ii) Nonperforming Loans to total Loans and advance ratio:

This ratio measures the proportion of nonperforming loans and the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the nonperforming loans by total loans and advances as under.

$$\text{Non Performing Loans to Total Loans and Advance ratio} = \frac{\text{Total Non Performing Loans}}{\text{Total Loan and Advances}}$$

D. Profitability Ratios

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

i) Return on Total Assets

This ratio establishes the relationship between net profit and total assets. This ratio is also called 'profit to assets ratio'. It is calculated dividing return on net profit/loss by total working fund and can be expressed as;

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

ii) Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiency of the Banks and finance companies have utilized their resources to earn good return from provided loan and advances. This ratio is computed to divide net profit/loss by the total amount of loan and advances. It can be mentioned as;

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net Profit or Loss}}{\text{Total Loan \& Advances}}$$

iii) Total Interest Earned to Total Working Fund Ratio

Total interest earned to total working fund is calculated to find out the percentage of interest earned to total assets. Higher the ratio indicates the better performance of

financial institutions in the form of interest earning on the better working fund. This ratio is calculated dividing total interest earned from investment by total working fund and is mentioned as below;

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

iv) Total Interest Earned to Total Loan and Advances Ratio

Total interest earned to total loan and advances is calculated to find out the percentage of interest earned to total loan and advances. Higher the ratio indicates the better performance of financial institutions in the form of interest earning on the better loan and advances. This ratio is calculated dividing total interest earned by total loan and advances and is mentioned as below;

$$\text{Total Interest Earned to Total Loan and Advances Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Loan and Advances}}$$

v) Total Interest Paid to Total Working Fund Ratio

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

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

vi) Total Interest Paid to Total Deposit Ratio

This ratio measures the percentage of total interest expenses against total deposit. A high ratio indicates higher interest expenses on deposit and vice-versa. This ratio is calculated by dividing total interest paid by total deposit.

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

E. Growth Ratios

Here, the growth ratios represent how well the commercial banks are maintaining their economic and financial condition. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the

selected Banks of the following growth ratios are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

- Growth ratio of total deposit
- Growth ratio of loan and advances
- Growth ratio of total investment
- Growth ratio of net profit

3.4.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as arithmetical mean, standard deviation, coefficient of variation, trend analysis adopted which are as follows:

A. Arithmetical Mean

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

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

Where

\bar{X} = Arithmetic mean

N = Number of observations

$\sum X$ = Sum of observations

B. Standard Deviation

Standard deviation is an important and widely used to measure dispersion. A standard deviation is the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. It is denoted by the letter σ (sigma).

In this study standard deviation of different ratios are calculated.

$$\sigma = \sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

Where,

σ = Standard Deviation

$\frac{\sum X^2}{N}$ = Sum of Squares of Observation

$\left(\frac{\sum X}{N}\right)^2$ = Sum of Squares of Mean

C. Coefficient of Variation

The Coefficient of variation is the most commonly used measure of relative variation. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio if the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as;

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100\%$$

$$\text{C.V.} = \frac{\sigma}{\bar{X}}$$

Where,

\bar{X} = Mean

σ = Standard Deviation

C.V. = Coefficient of Variation

D. Trend Analysis

Under this topic ratio between deposit and loan and advances as well as ratio between deposit and total investment is forecasted for next five years.

The trends of related variables can be calculated as, $Y = a + bx$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

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

4.2 Liquidity Ratios

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

4.2.1 Current Ratio

Current ratio indicates the ability of bank to meet its current obligation. Standard current ratio is 2:1 in general but for banking and for seasonal business current ratio of 1:1 is acceptable.

Current assets consist of cash and bank balances, money at call or short notice, loan and advances, investment in government securities, interest receivable and other miscellaneous assets.

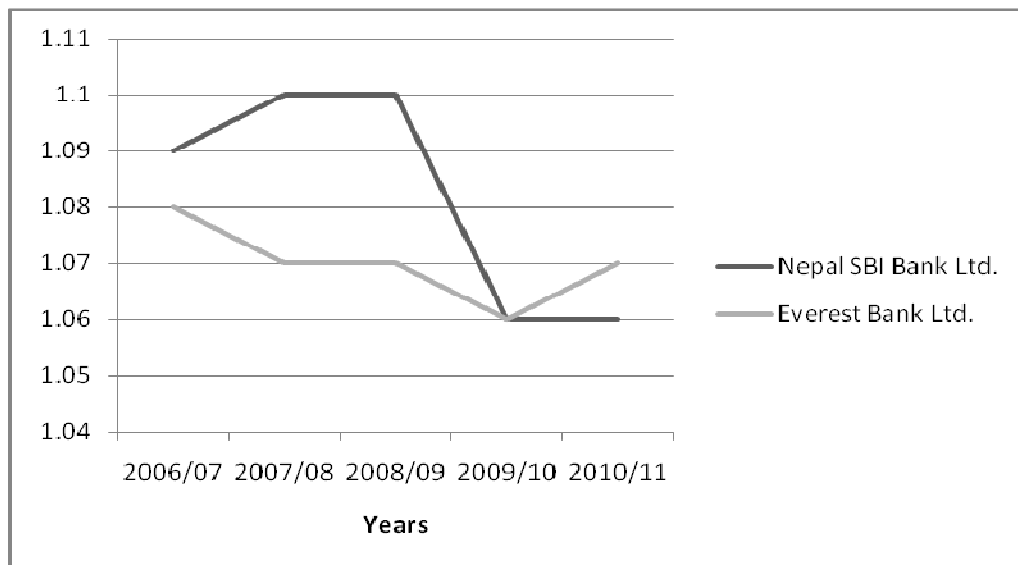
Current Liabilities consist of deposits, borrowings, bills payable, tax provision, staff bonus, dividend payable and other miscellaneous current liabilities. Current ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 is given below.

Table 4.1
Current Ratio (times)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	1.09	1.08
2007/08	1.10	1.07
2008/09	1.10	1.07
2009/10	1.06	1.06
2010/11	1.06	1.07
Mean	1.08	1.07
S.D	0.02	0.01
C.V (%)	1.86	0.57

Sources: Appendix 5

Figure 4.1
Current Ratio



Throughout the study period, current ratios of NSBL and EBL show the stable trend. In average, current ratio of NSBL is 1.08 times and current ratio of EBL is 1.07 times. The current ratios of NSBL and EBL are above than the acceptable level of 1:1.

Coefficient of variation (C.V) of NSBL is 186% but CV of EBL is 57.1%. It shows the current ratio of NSBL is less consistent than EBL.

4.2.2 Cash & Bank Balance to Total Deposit Ratio

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

Cash and bank balance is composed of cash on hand including foreign cheques, other cash items; balance with domestic banks and abroad. Deposit includes current deposits, saving, deposits, fixed deposits, money at call or short notice and other types of deposits. Cash and bank balance to total deposit ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.2
Cash & Bank Balance to Total Deposit Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	10.16	11.25
2007/08	9.81	13.15
2008/09	9.79	11.13
2009/10	6.81	18.50
2010/11	9.86	21.17
Mean	9.29	15.04
S.D	1.39	4.55
C.V (%)	15.00	30.25

Sources: Appendix 6

Figure 4.2
Cash & Bank Balance to Total Deposit Ratio

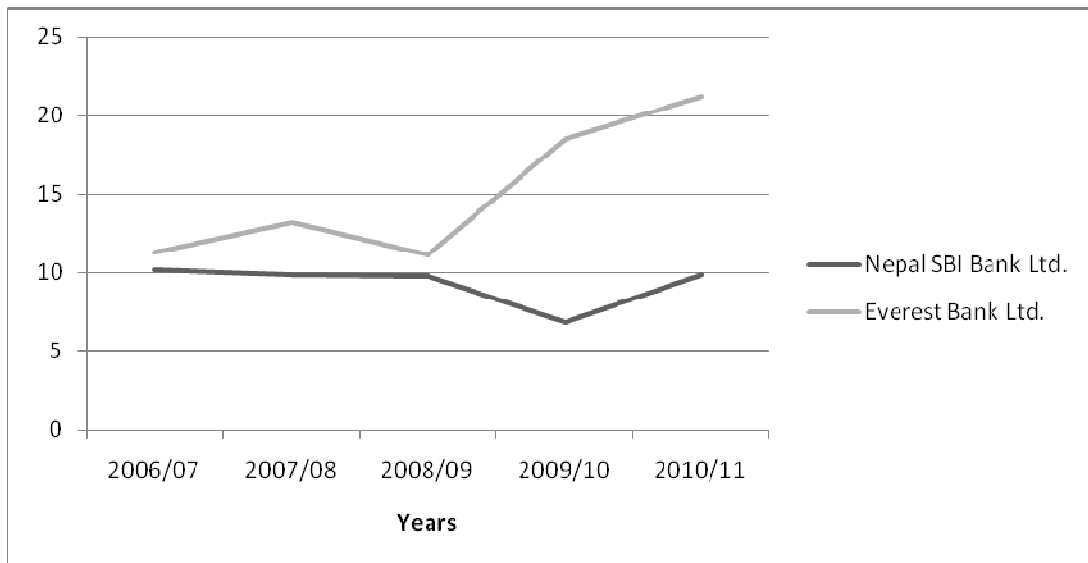


Table 4.2 shows that the cash and bank balance to total deposit ratio of the two banks has followed fluctuated trend from FY 2006/07 to 2010/11.

In average, NSBL has maintained lower cash & bank balance to total deposit ratio than EBL i.e. 9.29<15.04. It states that cash and bank balance to total deposit ratio of NSBL is lower than EBL. The C.V of NSBL is 15.00%, which is comparatively lower than that of EBL 30.25%. So, NSBL is the more consistent than that of EBL.

4.2.3 Cash and Bank Balance to Current Asset Ratio

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

Cash and bank balance to current asset ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.3
Cash & Bank Balance to Total Current Assets Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	8.64	9.83
2007/08	8.14	11.25
2008/09	7.87	9.96
2009/10	6.21	16.89
2010/11	9.15	19.11
Mean	8.00	13.41
S.D	1.11	4.30
C.V (%)	13.92	32.08

Sources: Appendix 7

Figure 4.3
Cash and Bank Balance to Current Asset Ratio

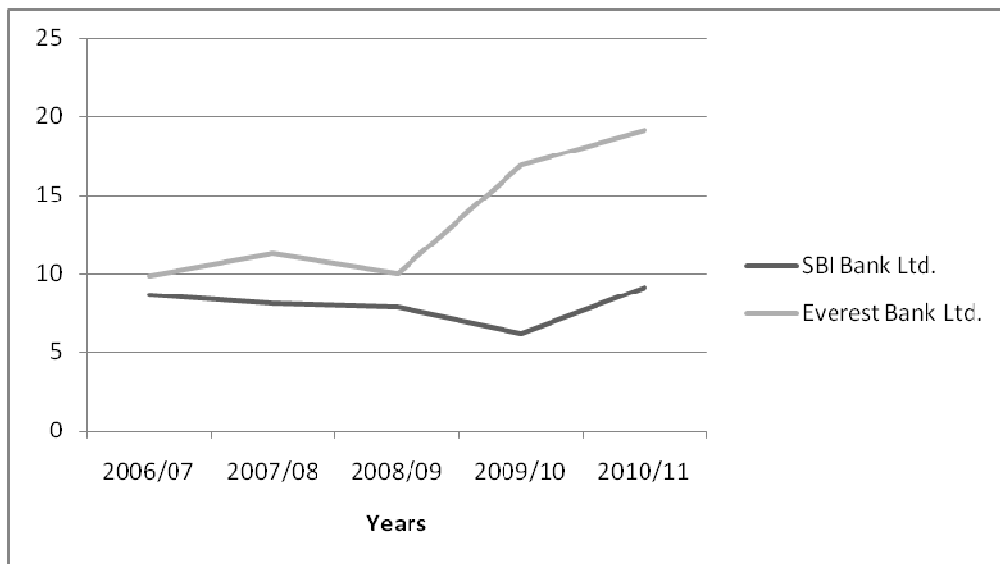


Table 4.3 shows that the cash and bank balance to total current asset ratio of the two banks has followed fluctuated trend from FY 2006/07 to 2010/11.

In average, NSBL has maintained lower cash & bank balance to total current ratio than EBL i.e. 8.00<13.41. It states that liquidity position on current assets of NSBL is lower than EBL. NSBL has maintained only 8.00% cash balance from current assets but EBL has maintained 13.41% cash balance from current assets. It means NSBL has taken more risk to meet the daily cash requirement of its customer deposit than EBL.

4.2.4 Investment on Government Securities to Current Asset Ratio

The commercial banks are interested to invest their funds collected in various government securities issued by government. The government securities are the safest palace to make investment. But the government securities are not so much liquid as cash and bank balance. They can be easily sold in the market or they can be converted into cash in other ways. The main purpose of this ratio is to examine the portion of commercial bank's current assets that invested on government securities. We have

Investment on Govt. securities to current asset ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.4
Investment on Government Securities to Total Current Assets Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	27.74	22.46
2007/08	17.00	22.13
2008/09	17.79	18.00
2009/10	10.78	14.10
2010/11	11.46	10.64
Mean	16.95	17.47
S.D	6.81	5.12
C.V (%)	40.15	29.31

Sources: Appendix 8

Figure 4.4
Investment on Government Securities to Current Asset Ratio

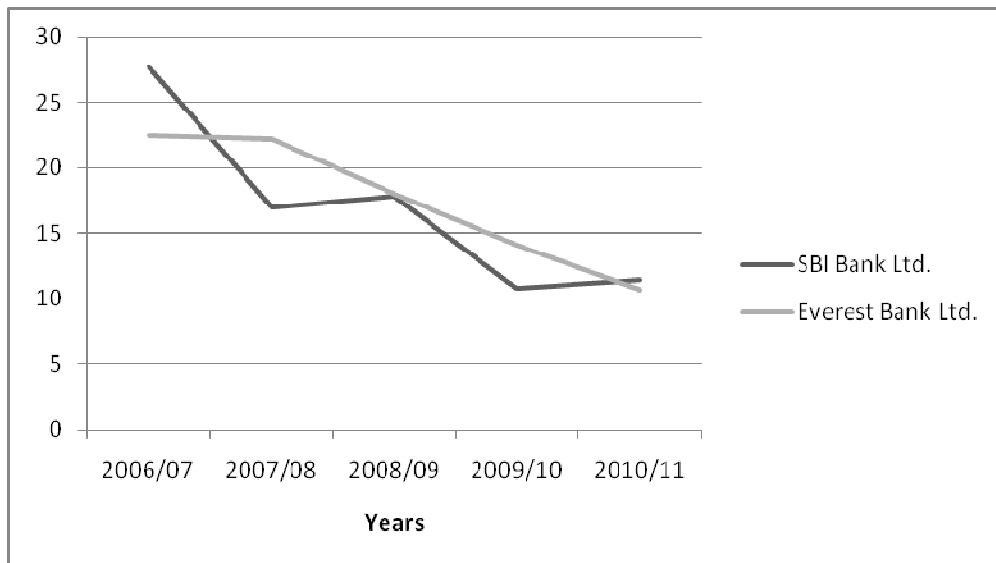


Table 4.4 shows that the investment on government securities to total current asset ratio of the two banks has followed decreasing trend from FY 2005/0 to 2010/11.

In average, NSBL has invested 16.95% of current assets on government securities which is less than the investment made by EBL i.e 17.47 %. It means NSBL is weaker than EBL in investing their current assets to government securities.

The C.V of NSBL is 40.15%, which is comparatively higher than that of EBL 29.31%. So that NSBL is less consistent than that of EBL while investing their current assets on government securities.

4.2.5 Total Deposit to Total Working Fund Ratio

Deposits are the main sources of funds for commercial banks. More than 50% of the total assets have been found to be financed through deposits. Total deposit includes saving, fixed, call, current and fixed deposits. Where, total working fund is the total assets. It is composed up of current assets, fixed assets, miscellaneous assets and investment: loans for development bank etc.

Total Deposit to Total Working Fund ratios of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.5
Total Deposit to Total Working Fund Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	84.40	86.49
2007/08	82.33	84.85
2008/09	79.80	88.31
2009/10	90.43	90.26
2010/11	91.72	89.25
Mean	85.74	87.83
S.D	5.16	2.17
C.V (%)	6.02	2.47

Sources: Appendix 9

Figure 4.5
Total Deposit to Total Working Fund Ratio

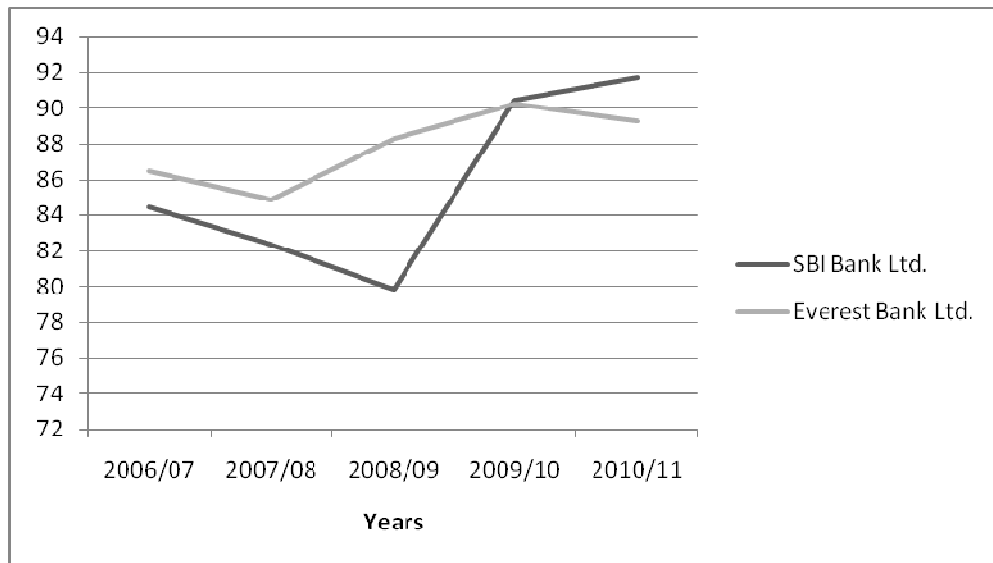


Table 4.5 shows that the total deposit to working fund ratio of NSBL and EBL followed the fluctuating trend from FY 2006/07 to 2010/11.

In average, NSBL collected 85.74% of total funds from deposits and EBL collected 87.83% of total funds from deposits. It indicates that, bank's main source of fund is deposit. In the above table deposit has more than 80% contribution on total funds of the two banks.

The C.V of NSBL is 6.02%, which is comparatively higher than that of EBL. So that EBL is more consistent than that of NSBL while collecting their funds from deposit.

4.3 Asset Management Ratio

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

4.3.1 Loan and Advances to Total Deposit Ratio

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

Loan and advances to total deposit ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.6
Loan and Advances to Total Deposit Ratio (%)

Fiscal Year/Banks	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	69.32	71.01
2007/08	82.66	75.13
2008/09	88.32	76.49
2009/10	54.12	71.68
2010/11	50.09	74.61
Mean	68.90	73.78
S.D	16.87	2.34
C.V (%)	24.49	3.18

Sources: Appendix 10

Figure 4.6
Loan and Advances to Total Deposit Ratio

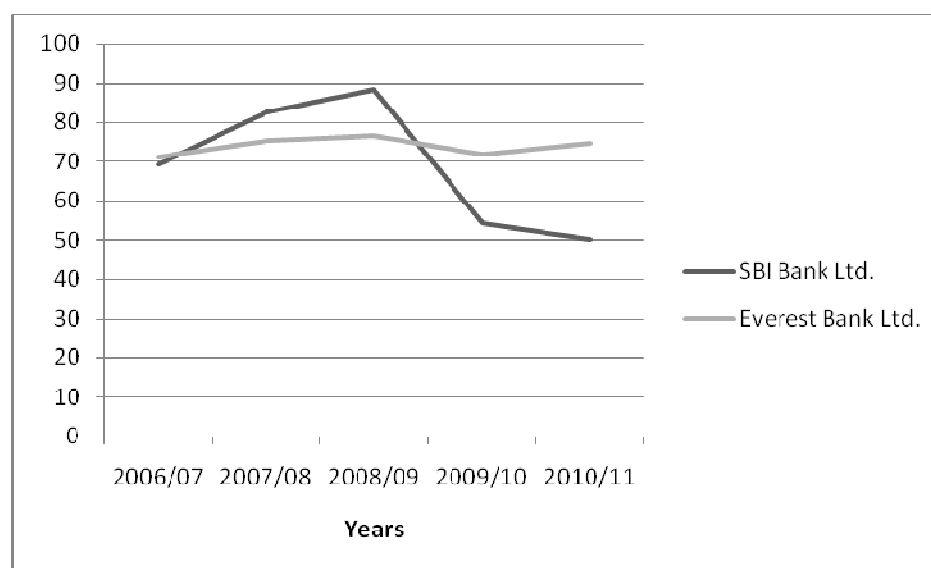


Table 4.6 shows that the loan and advances to total deposit ratio of NSBL is in decreasing trend. On the other hand EBL has the similar trend of loan and advances to total deposit ratio.

In average, loan and advances to total deposit ratio of NSBL i.e. 68.90% is lower than the ratio of EBL i.e 73.78%.

The C.V of NSBL is 24.49%, which is comparatively higher than that of EBL i.e 3.18%. So that NSBL is less consistent than that of EBL while mobilizing their total deposits on loan and advances.

4.3.2 Total Investment to Total Deposit Ratio

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

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

Total Investment to total deposit ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.7
Total Investment to Total Deposit Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	32.82	30.43
2007/08	23.24	27.41
2008/09	22.52	21.10
2009/10	47.52	17.85
2010/11	46.73	13.56
Mean	34.57	22.07
S.D	12.17	6.88
C.V (%)	35.20	31.19

Sources: Appendix 11

Figure 4.7

Total Investment to Total Deposit Ratio

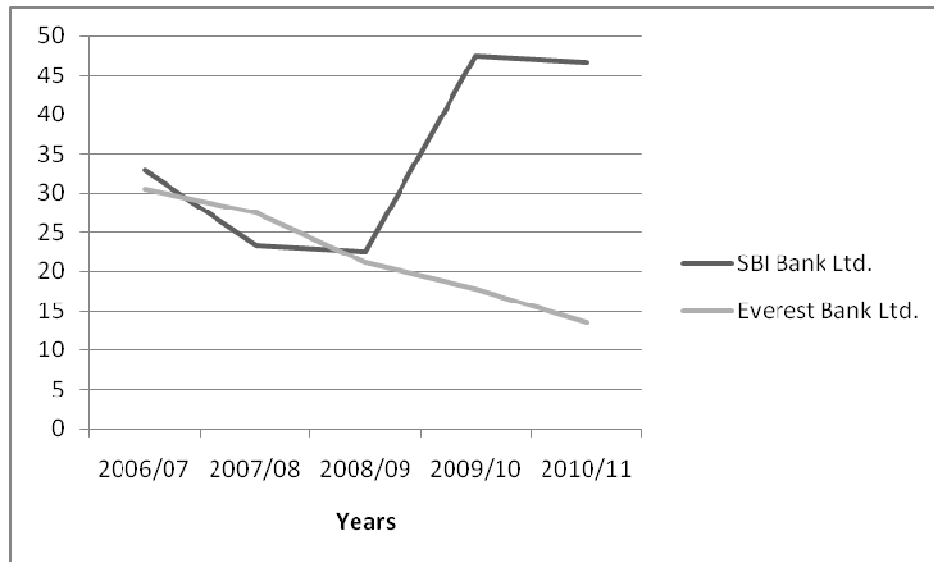


Table 4.7 shows that the total investment to total deposit ratio of NSBL shows increasing trend, whereas ratio of EBL shows decreasing trend. In average, total investment to total deposit ratio of NSBL i.e. 34.57% is higher than the ratio of EBL i.e 22.07%.

The C.V of NSBL is 35.20%, which is comparatively higher than that of EBL i.e 31.19%. So that NSBL is less consistent than that of EBL while investing their total deposits on government securities, shares and other investments.

4.3.3 Loan and Advances to Total Working Fund Ratio

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

Where, total working fund is the total assets. It is composed up of current assets, fixed assets, miscellaneous assets and investment: loans for development bank etc.

Total loan and advances to total working fund ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.8
Total Loan and Advances to Total Working Fund Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	58.51	61.41
2007/08	68.05	63.75
2008/09	70.48	67.55
2009/10	48.94	64.70
2010/11	45.94	66.59
Mean	58.39	64.80
S.D	11.00	2.41
C.V (%)	18.84	3.73

Sources: Appendix 12

Figure 4.8
Total Loan and Advances to Total Working Fund Ratio

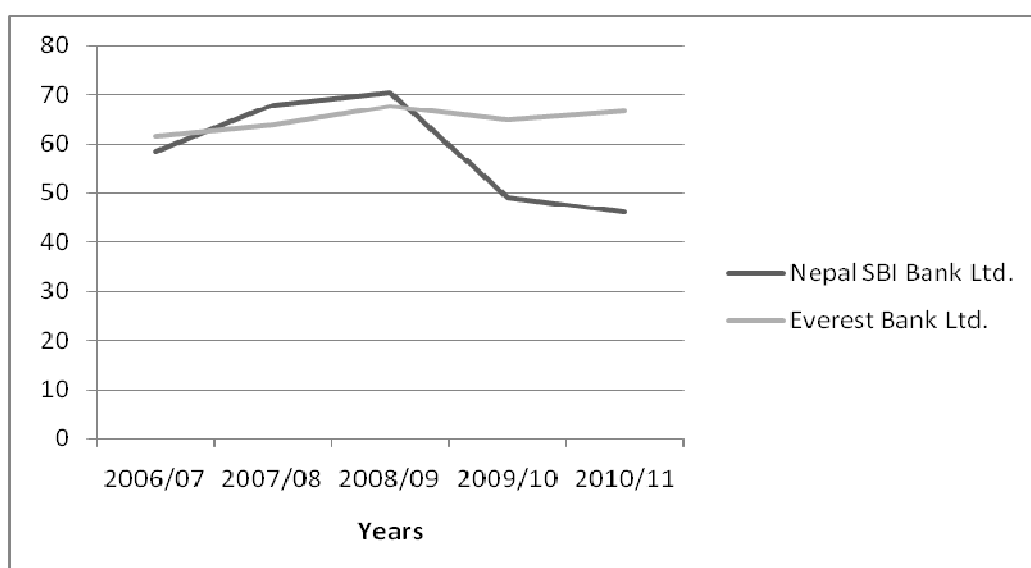


Table 4.8 shows that the Total loan and advances to working fund deposit ratio of the two banks shows the fluctuating trend.

In average, the ratio of NSBL is 58.39% which is lower than that of EBL i.e 64.80%. This indicates that EBL is in good condition to mobilize its total assets on loan and advances.

The C.V of NSBL is 18.84%, which is comparatively higher than that of EBL i.e 3.73%. So that NSBL is less uniform than that of EBL while mobilizing their total assets on loan and advances.

4.3.4 Investment on Government Securities to Total Working Fund Ratio

Investing in securities of government is one of the major schemes of banks. Those securities include mostly treasury bills and other marketable securities of government issued by NRB on behalf of the government. These assets are almost risk-free and are sellable at higher value in the future also.

Investment on government securities to total working fund ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.9

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

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	27.55	22.24
2007/08	16.87	21.95
2008/09	17.66	17.76
2009/10	10.70	13.94
2010/11	11.34	10.52
Mean	16.82	17.28
S.D	6.77	5.09
C.V (%)	40.25	29.43

Sources: Appendix 13

Figure 4.9

Investment on Government Securities to Total Working Fund Ratio

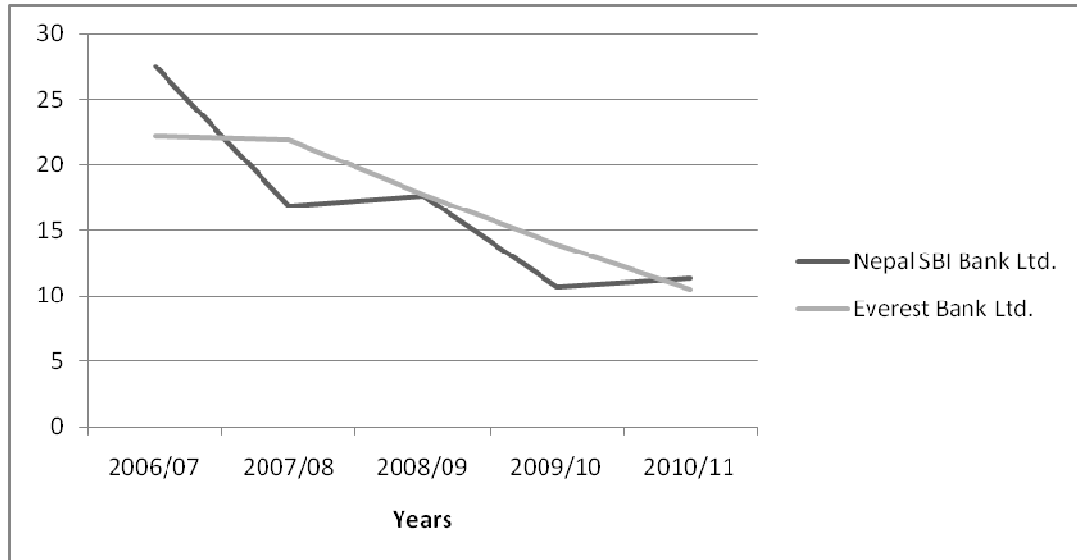


Table 4.9 shows that the investment on government securities to working fund ratio of the two banks shows the decreasing trend.

In average, the ratio of NSBL is 16.82% which is lower than that of EBL i.e 17.28%. This indicates that EBL has invested more portions of its total assets on government securities than NSBL.

The C.V of NSBL is 40.25%, which is comparatively higher than that of EBL i.e 29.43%. So that NSBL is less uniform than that of EBL while investing their total assets on government securities.

4.3.5 Investment on Shares and Debentures to Total Working Fund Ratio

All the resources of a bank are not used as loan and advances. A bank mobilize its fund is various ways. To some extent commercial bank seems to utilize its fund by purchasing government securities. A government security is a safe medium of investment though it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund or different types of government securities to maximize its income. A high ratio indicates better mobilization

of funds as investment o government securities is a current asset which is invested by external parties. These types of securities can be sold in the market.

Investment on shares and debentures to total working fund ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.10
Investment on Shares and Debentures to Total Working Fund Ratio (%)

Fiscal Year/Banks	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	0.15	0.12
2007/08	0.23	0.09
2008/09	0.19	0.06
2009/10	0.11	0.05
2010/11	0.10	0.04
Mean	0.15	0.07
S.D	0.06	0.04
C.V (%)	36.21	48.19

Sources: Appendix 14

Figure 4.10
Investment on Shares and Debentures to Total Working Fund Ratio

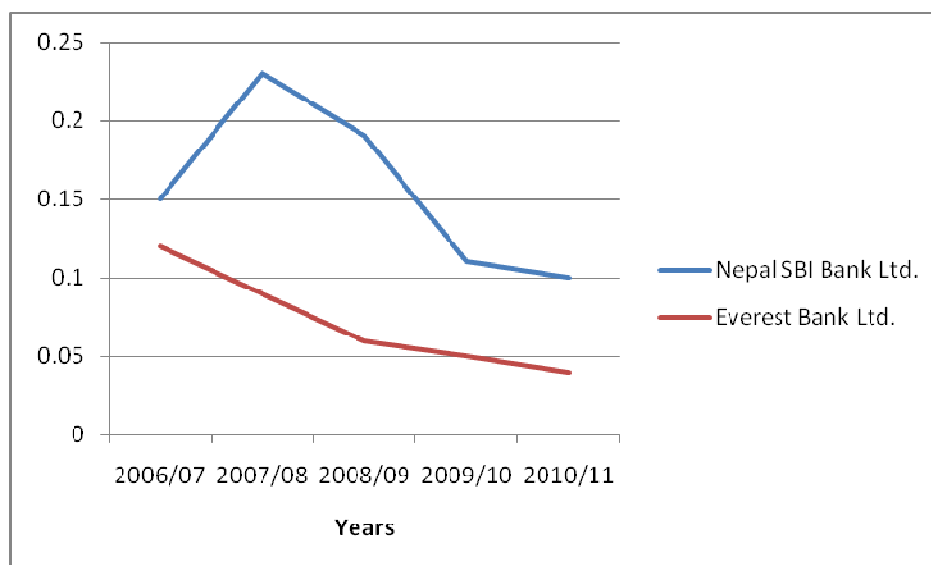


Table 4.10 shows that the investment on share and debentures to working fund ratio of the two banks shows the decreasing trend.

In average, the ratio of NSBL is 0.15% which is higher than that of EBL i.e 0.07%. This indicates that NSBL has invested more portions of its total assets on shares and debentures than EBL.

The C.V of NSBL is 36.21%, which is comparatively lower than that of EBL i.e 48.19%. So that NSBL is more uniform than that of EBL while investing its total assets on shares and debentures.

4.4 Activity Ratio

Activity ratios measure the performance efficiency of an organization from various angles of its operation. These ratios indicate the efficiency of activity of enterprises to utilize the available funds, particularly short term funds. These ratios are use to determine the efficiency, quality and the contribution of loan and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

4.4.1 Loan Loss Provision to Total Loans and Advances ratio:

This ratios describes the quality of assets that bank is holding. Nepal Rastra Bank has directed the commercial banks to classify its loan and advances into the category of pass, sub standard, doubtful and loss on the basis of maturity of principal to make the provision of 1, 25, 50 and 100 percentages respectively. The provision for loan loss reflects the increasing probability of nonperforming loans in volume of loan and advances. This ratio is calculated by dividing the loan loss provision by total loan and advances as presented as under.

Loan Loss Provision to Total Loan and Advances ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.11
Loan Loss Provision to Total Loans and Advances Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	8.06	3.42
2007/08	6.39	3.06
2008/09	5.22	2.71
2009/10	3.17	2.45
2010/11	2.76	2.18
Mean	5.12	2.76
S.D	2.21	0.49
C.V (%)	43.23	17.75

Sources: Appendix 15

Figure 4.11
Loan Loss Provision to Total Loans and Advances Ratio

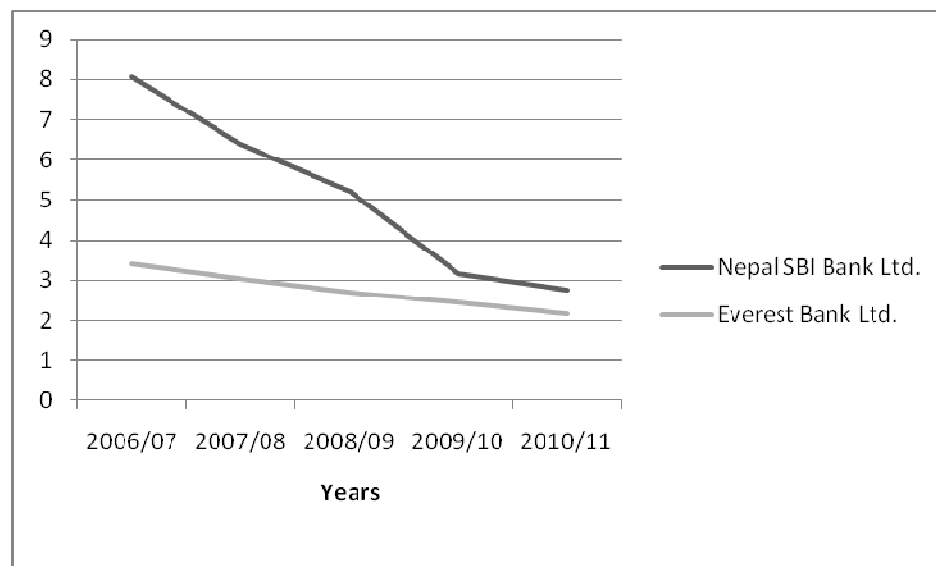


Table 4.11 shows that the loan loss provision to total loan and advances ratio of the two banks shows the decreasing trend.

In average, the ratio of NSBL is 5.12% which is higher than that of EBL i.e 2.76%. This indicates that NSBL has more portions of loan loss provision on its total loan & advances than EBL.

The C.V of NSBL is 43.23%, which is comparatively higher than that of EBL i.e 17.75%. So that EBL is more consistent on maintaining quality assets than NSBL.

4.4.2 Non Performing Loans to Total Loans and advance ratio:

This ratio measures the proportion of nonperforming loans and the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the nonperforming loans by total loans and advances as under.

Non Performing Loans to Total Loan and Advances ratio of NSBL & EBL from the fiscal year 2006/07 to 2010/11 are given below.

Table 4.12
Non Performing Loans to Total Loans and advance Ratio (%)

Fiscal Year/Banks	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	6.63	1.32
2007/08	4.85	0.83
2008/09	4.03	0.69
2009/10	2.09	0.49
2010/11	1.52	0.16
Mean	3.82	0.70
S.D	2.08	0.43
C.V (%)	54.38	61.33

Sources: Appendix 16

Figure 4.12

Non Performing Loans to Total Loans and advance Ratio

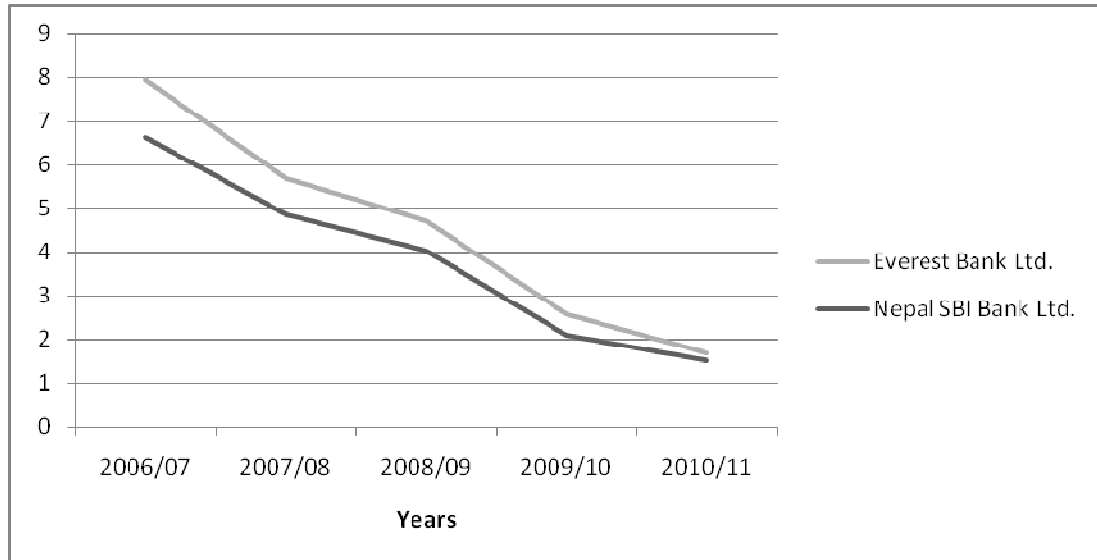


Table 4.12 shows that the non performing loan to total loan and advances ratio of the two banks shows the decreasing trend.

In average, the ratio of NSBL is 3.82% which is higher than that of EBL i.e 0.70%. This indicates that NSBL has more portions of non performing loans on its total loan & advances than EBL.

The C.V of NSBL is 54.38%, which is comparatively lower than that of EBL i.e 61.33%. So that EBL is more consistent on maintaining quality assets than NSBL.

4.5 Profitability Ratio

The ultimate objective of all the banks is to earn profit. Strictly speaking, no bank can survive without profit. Profit is the indicator of efficient operation of bank. The bank acquires profit by providing different services to its customers or by making investment of different kinds. We also need the indicators of profitability position in order to identify the overall efficiency of management and utilization of the funds collected ad used in the banks. The major ratios that we consider under this section are:

4.5.1 Return on Loan and Advances

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

Table 4.13
Return on Loan and Advances Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	1.53	2.42
2007/08	2.69	2.17
2008/09	2.05	2.46
2009/10	2.09	2.67
2010/11	2.24	3.02
Mean	2.12	2.55
S.D	0.42	0.32
C.V (%)	19.64	12.48

Sources: Appendix 17

Figure 4.13
Return on Loan and Advances Ratio

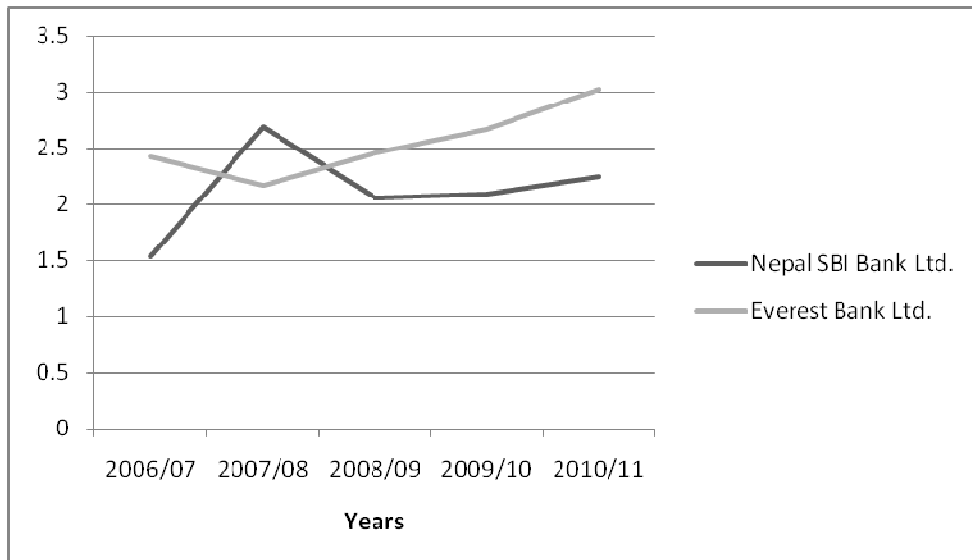


Table 4.13 shows that the return on loan and advances ratio of the two banks shows the fluctuating trend.

In average, the ratio of NSBL is 2.12% which is lower than that of EBL i.e 2.55%. This indicates that EBL has been able to generate high return on loan and advances than NSBL.

The C.V of NSBL is 19.64% in comparison with the C.V. of EBL i.e. 12.48%. It states that EBL is more efficient in generating returns on its loan and advances than NSBL.

4.5.2 Return on Total Working Fund Ratio

This ratio is measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank's working fund is well managed and efficiently utilized. The ratio is useful in evaluating the overall efficiency of the management of the banks in generating meaningful returns in a year.

This ratio measures the earning capacity of a commercial bank on its total assets.

Table 4.14
Return on Total Working Fund Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	0.90	1.49
2007/08	1.83	1.38
2008/09	1.44	1.66
2009/10	1.02	1.73
2010/11	1.03	2.01
Mean	1.25	1.65
S.D	0.39	0.24
C.V (%)	31.14	14.62

Sources: Appendix 18

Figure 4.14
Return on Total Working Fund Ratio

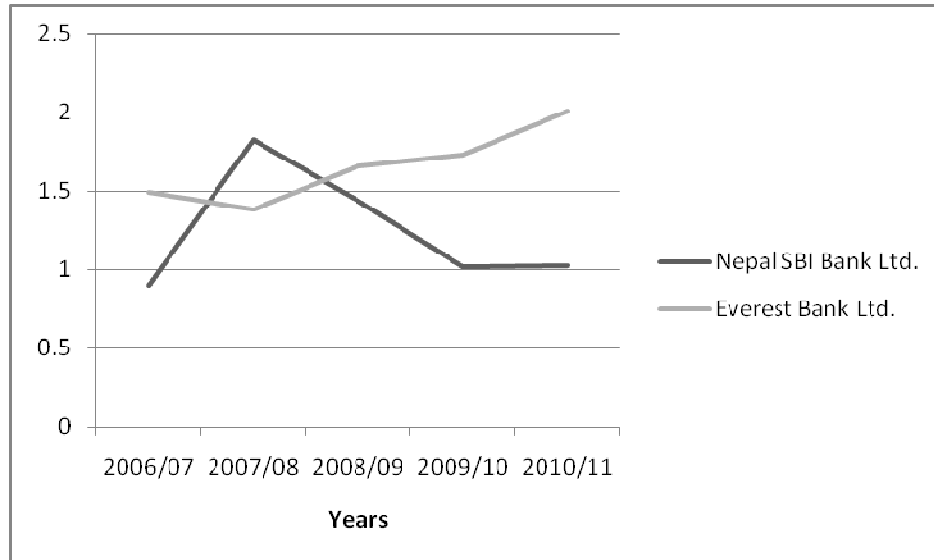


Table 4.14 shows that the return on total working fund ratio of the two banks shows the fluctuating trend.

In average, the ratio of NSBL is 1.25% which is lower than that of EBL i.e 1.65%. This indicates that EBL has been able to generate more return on available sources i.e. total assets than NSBL

The C.V of NSBL is 31.14%, which is comparatively higher than that of EBL i.e 14.62%. So that EBL is utilizing its total assets with more efficiently than NSBL.

4.5.3 Total Interest Earned to Total Working Fund Ratio

This ratio shows the earning capacity as interest of a bank by mobilizing its total assets or working funds. So higher the ratio reflects higher the earning capacity and higher ratio will be preferred.

Table 4.15
Total Interest Earned to Total Working Fund Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	5.44	5.66
2007/08	5.98	5.34
2008/09	5.65	5.70
2009/10	4.72	5.92
2010/11	5.97	7.50
Mean	5.55	6.03
S.D	0.52	0.85
C.V (%)	9.28	14.09

Sources: Appendix 19

Figure 4.15
Total Interest Earned to Total Working Fund Ratio

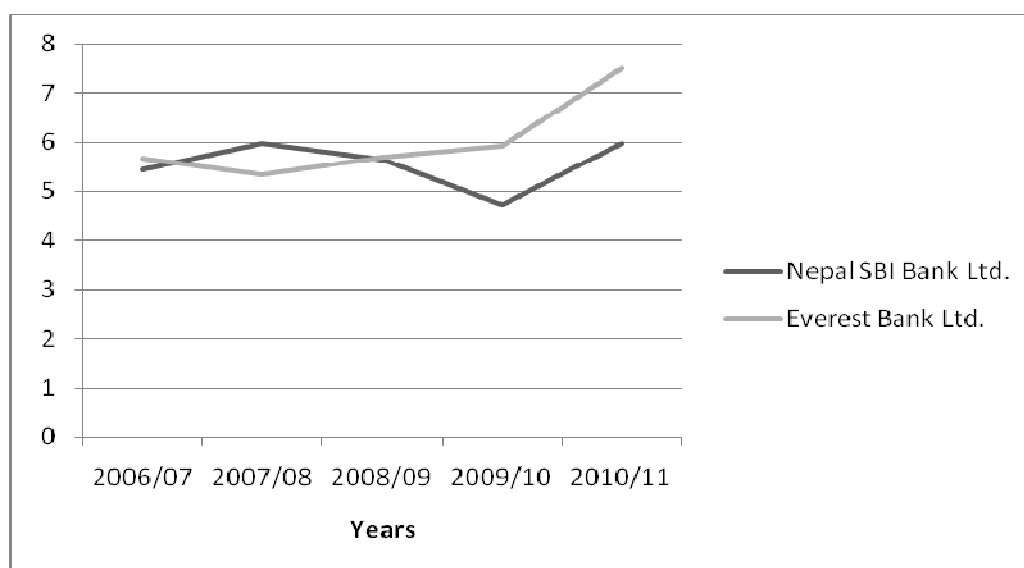


Table 4.15 shows that the total interest earned to total working fund ratio of the two banks shows the fluctuating trend.

In average, the ratio of NSBL is 5.55% which is lower than that of EBL i.e 6.03. This indicates that EBL seems stronger to generate more interest income on available sources i.e. total assets than NSBL.

The C.V of NSBL is 9.28%, which is comparatively lower than that of EBL i.e 14.09%. So that NSBL is more consistent and stable to earn interest in respect of total assets than EBL.

4.5.4 Total Interest Earned to Total Loan and Advances Ratio

This ratio shows the earning capacity as interest of a bank by mobilizing its total assets or working funds to loan and advances. So higher the ratio reflects higher the earning capacity and higher ratio will be preferred.

Table 4.16
Total Interest Earned to Total Loan and Advances Ratio (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	9.29	9.22
2007/08	8.79	8.38
2008/09	8.01	8.44
2009/10	9.65	9.16
2010/11	12.98	11.26
Mean	9.75	9.29
S.D	1.91	1.17
C.V (%)	19.63	12.56

Sources: Appendix 20

Figure 4.16

Total Interest Earned to Total Loan and Advances

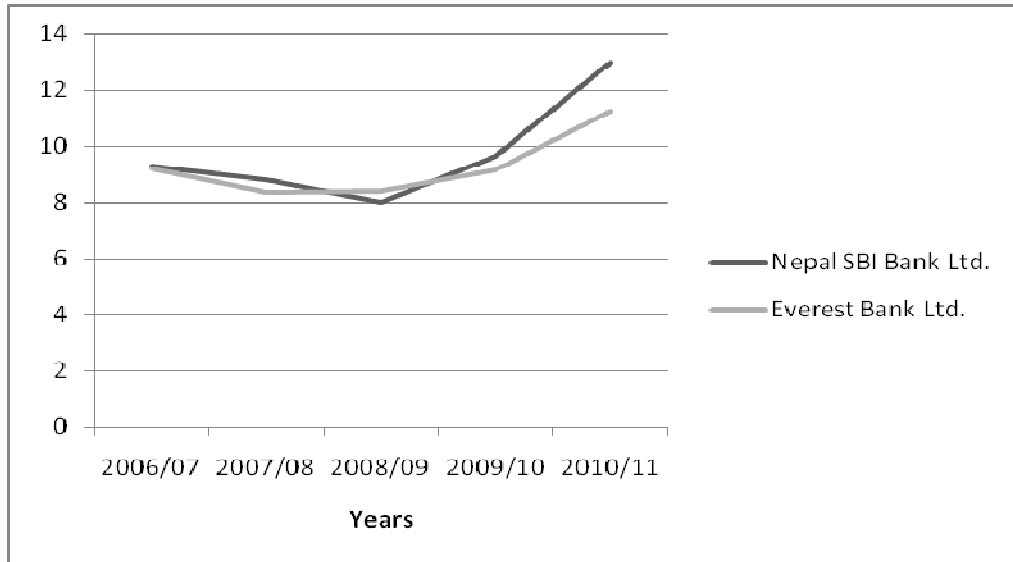


Table 4.16 shows that the total interest earned to total loan and advances ratios of both the banks are in increasing.

In average, the ratio of NSBL is 9.75% which is higher than that of EBL i.e 9.29%. This indicates that EBL seems weaker to generate more interest income on loan and advances than NSBL.

The C.V of NSBL is 19.63%, which is comparatively higher than that of EBL i.e 12.56%. So that EBL is more consistent and stable to earn interest in respect of total loan and advances than NSBL.

4.5.5 Total Interest Paid to Total Working Fund Ratio

This ratio shows the percentage of interest paid against total working fund.. So higher the ratio reflects higher interest expenses on total assets and vice versa.

Table 4.17

Total Interest Paid to Total Working Fund Ratio (%)

Fiscal Year/Banks	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	2.57	2.52
2007/08	2.97	2.41
2008/09	2.65	2.33
2009/10	2.67	2.74
2010/11	3.79	3.80
Mean	2.93	2.76
S.D	0.51	0.60
C.V (%)	17.32	21.80

Sources: Appendix 21

Figure 4.17

Total Interest Paid to Total Working Fund Ratio

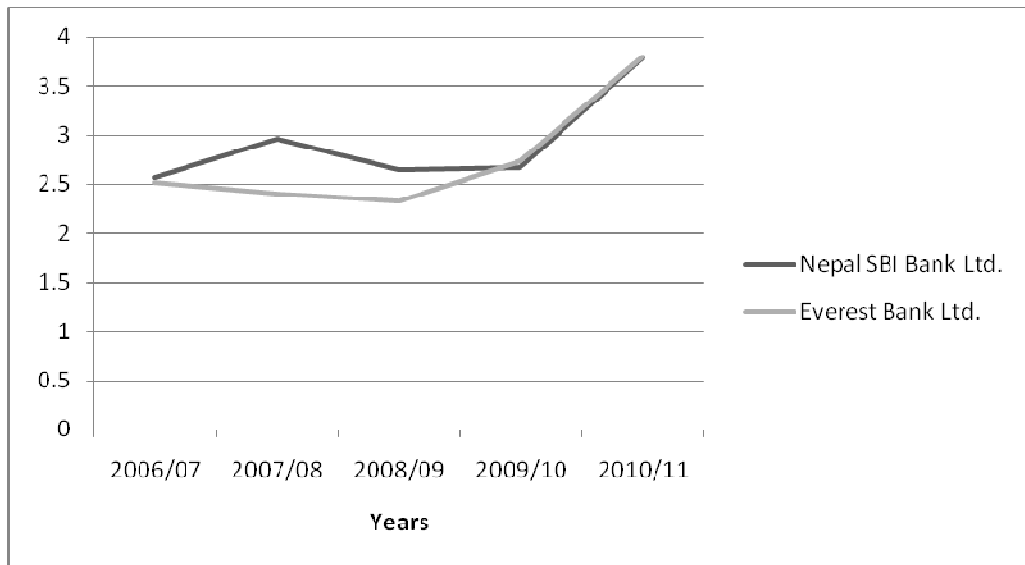


Table 4.17 shows that the total interest paid to total working fund ratio of NSBL & EBL is in fluctuating.

In average, the ratio of NSBL is 2.93% which is higher than that of EBL i.e 2.76%. This indicates that NSBL is paying more interest on its total working funds than EBL.

The C.V of NSBL is 17.32%, which is comparatively lower than that of EBL i.e 21.80%. It shows that NSBL is successful to collect its working funds from less expensive sources in comparison to EBL.

4.5.6 Total Interest Paid to Total Deposit Ratio (Cost of deposit).

Generally interest is paid on deposit. This ratio shows the percentage of interest paid against total deposit. The ratio shows the cost of deposit. Higher ratio reflects higher cost of deposit.

Table 4.18
Total Interest Paid to Total Deposit Ratio (%)

Fiscal Year/Banks	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	3.04	2.91
2007/08	3.60	2.84
2008/09	3.32	2.64
2009/10	2.95	3.04
2010/11	4.14	4.26
Mean	3.41	3.14
S.D	0.48	0.64
C.V (%)	14.07	20.50

Sources: Appendix 22

Figure 4.18
Total Interest Paid to Total Deposit Ratio

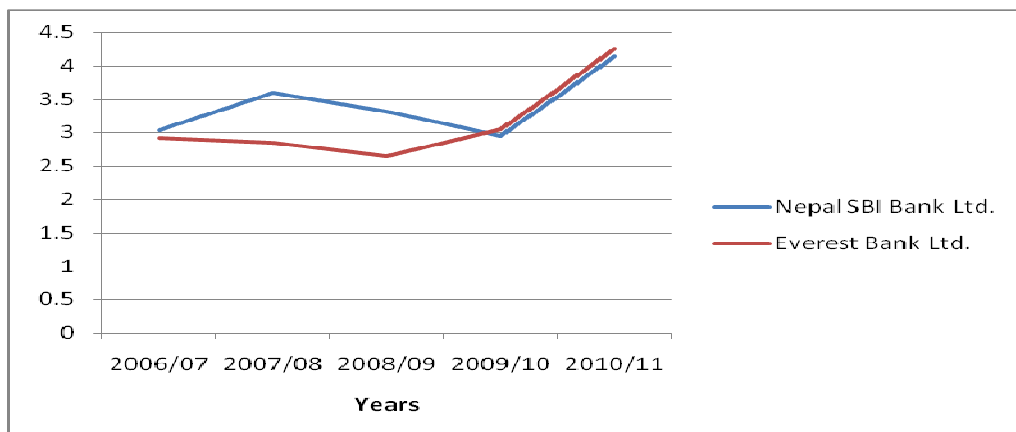


Table 4.18 shows that the total interest paid to total deposit ratio of NSBL & EBL is in fluctuating trend.

In average, the ratio of NSBL is 3.41% which is higher than that of EBL i.e 3.14%. This indicates that NSBL is paying more interest on its total deposit than EBL.

The C.V of NSBL is 14.07%, which is comparatively lower than that of EBL i.e 20.50%. It shows that NSBL is successful to collect its deposit at lower cost in comparison to EBL.

4.6 Growth Ratios

Growth ratios are directly related to the fund mobilization and investment management of a commercial bank. It represents how well the commercial banks are maintaining the economic and financial position. Under this topic, four of growth ratios are studies which are as follows:

- i. Growth Ratio of Total Deposit.
- ii. Growth Ratio of Total Loan and Advances.
- iii. Growth Ratio of Total Investment.
- iv. Growth Ratio of Net Profit.

The ratios are calculated using the following guideline

Calculation of Growth Rate

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

Where

D_n = Total amount in last year of the study period

D_o = Total amount in the initial year of the study period

g = Growth rate of the amount during the study period.

n = Total no of study period

Detailed calculation has been presented in Appendix 27

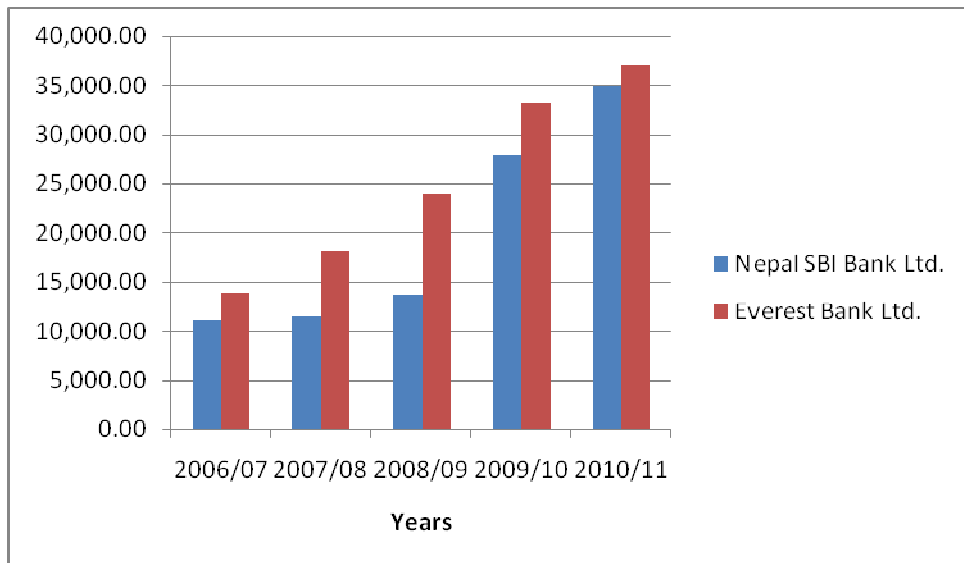
4.6.1 Growth Ratio of Total Deposit

Table 4.19
Growth Ratio of Total Deposit (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	11,002.04	13,802.44
2007/08	11,445.29	18,186.25
2008/09	13,715.39	23,976.30
2009/10	27,957.22	33,322.95
2010/11	34,896.42	36,932.31
Growth Rate (%)	33.45	27.90

Sources: Appendix 1&2

Figure 4.19
Growth Ratio of Total Deposit



The above table shows the comparative growth ratio total deposit of NSBL & EBL. The above table shows that the growth ratio of NSBL is higher than EBL. During the study period, the growth rate of NSBL is 33.45% against the growth rate of EBL i.e. 27.90%. During the study period, the growth ratio indicates that NSBL is doing very well than EBL while collecting the deposit. Though the amount of deposit of EBL is higher than of

NSBL through out the study period, but NSBL is inching closer to EBL while collecting the deposit.

4.6.2 Growth Ratio of Total Loan and Advances

Table 4.20

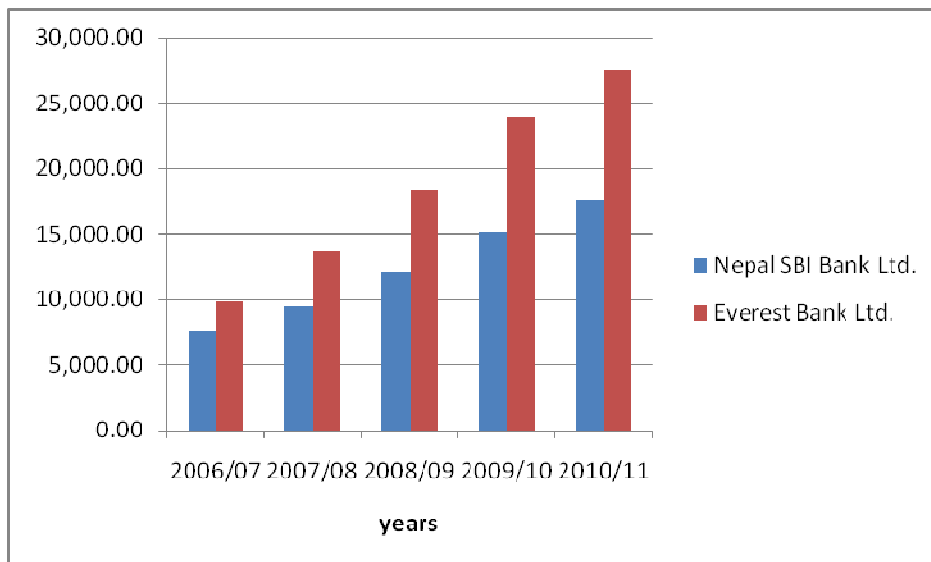
Growth Ratio of Total Loan and Advances (%)

Fiscal Year/Banks	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	7,626.74	9,801.31
2007/08	9,460.45	13,664.08
2008/09	12,113.70	18,339.08
2009/10	15,131.75	23,884.67
2010/11	17,480.55	27,556.36
Growth Rate (%)	23.04	29.49

Sources: Appendix 1 & 2

Figure 4.20

Growth Ratio of Total Loan and Advances



The above table shows the comparative growth ratio total loan and advances of NSBL & EBL. The above table shows that the growth ratio of EBL is higher than NSBL. During the study period, the growth rate of NSBL is 23.04% as against the growth rate of EBL

i.e. 29.49%. The growth ratio indicates that EBL seems in better position while granting loan and advances in comparison with EBL.

4.5.3 Growth Ratio of Total Investment

Table 4.21

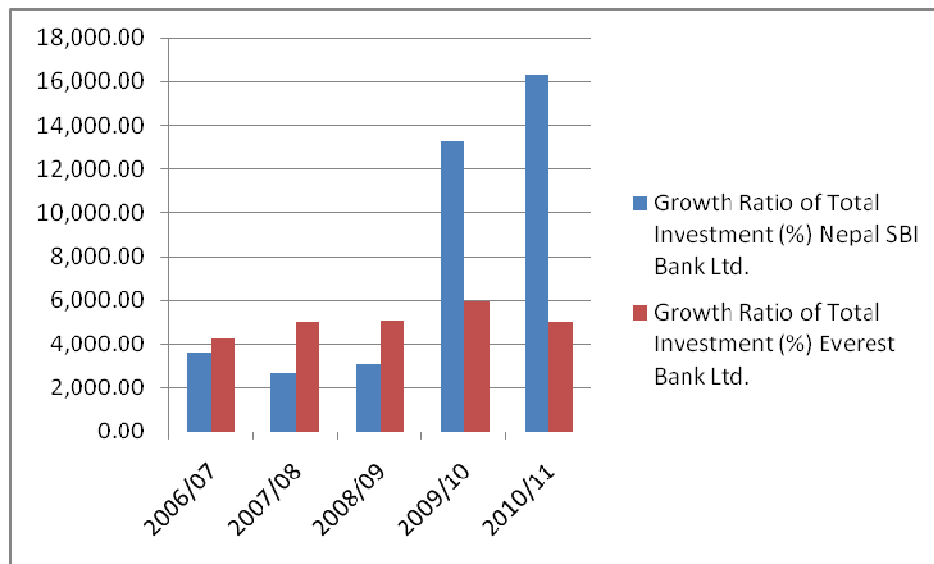
Growth Ratio of Total Investment (%)

Fiscal Year/Banks	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	3,610.77	4,200.51
2007/08	2,659.44	4,984.32
2008/09	3,088.89	5,059.56
2009/10	13,286.18	5,948.48
2010/11	16,305.63	5,008.31
Growth Rate (%)	45.78	4.50

Sources: Appendix 1 & 2

Figure 4.21

Growth Ratio of Total Investment



The above table shows the comparative growth ratio of total investment of NSBL & EBL. The above table indicates that NSBL has increasing trend whereas EBL has

fluctuating trend in respect of level of Investment. NSBL has growth rate of 45.78% on total investment where as EBL has only growth rate of 4.50% on total investment.

The above table indicates that NSBL seems in better position while making investments in comparison with EBL.

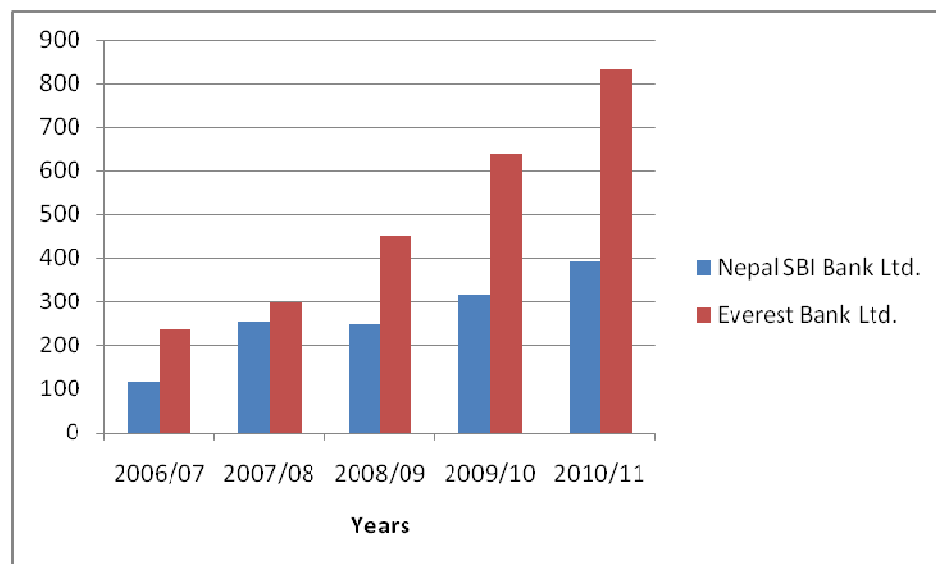
4.6.4 Growth Ratio of Net Profit

Table 4.22
Growth Ratio of Net Profit (%)

Fiscal Year	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	117.00	237.29
2007/08	254.91	296.40
2008/09	247.78	451.22
2009/10	316.37	638.73
2010/11	391.74	831.76
Growth Rate (%)	35.27	36.83

Sources: Appendix 3&4

Figure 4.22
Growth Ratio of Net Profit



The above table shows the comparative growth ratio net profit of NSBL and EBL. The above table indicates that net profit of both the banks is in increasing trend throughout the study period. Growth rate of net profit of NSBL & EBL is 35.27% & 36.83% respectively. Volume wise net profit of EBL is better than NSBL. But in terms of growth rate NSBL is not far from EBL.

4.7 Statistical Analysis

Under this heading some statistical tools such as trend analysis of deposits, loan and advances, investment and net profit are used to achieve the objectives of the study.

4.7.1 Trend Analysis of Deposit Utilization and Position and Projection for Next Five Years

This heading finds out the trend of deposit utilization of NSBL and EBL during five years study period and it projects the next five years trend. A commercial bank may grant loan and advances and invest some of the funds in government securities and shares and debentures of other companies to utilize deposit. Here, ratio between deposit and loan and advances as well as ratio between deposit and total investment is forecasted for next five years. The projections are based on the following assumptions.

- Other things will remain unchanged
- The projection will be right when the limitation of least square method is carried out.
- The bank will run in present position
- The economy will remain in present stage
- Nepal Rastra Bank will not change its guidelines to commercial banks.

4.7.1.1 Trend Analysis of Total Investments to Total Deposit Ratio

This heading analyzes the trend of total investment to total deposit ratio of NSBL and EBL in comparison with five years study period and projects trend of next five years. The following table describes the trend values of total investment to total deposit ratio of NSBL in comparison to EBL.

Table 4.23

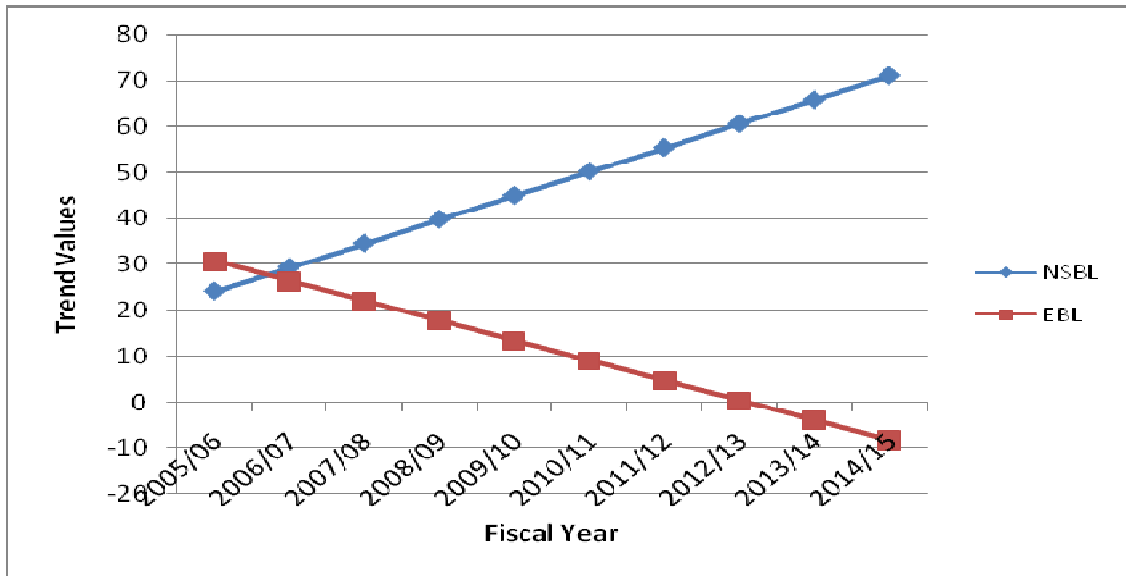
Trend Values of Total Investment to Total Deposit Ratio (%)

Fiscal Year/Banks	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	24.144	30.73
2007/08	29.354	26.4
2008/09	34.564	22.07
2009/10	39.774	17.74
2010/11	44.984	13.41
2010/11	50.194	9.08
2011/12	55.404	4.75
2012/13	60.614	0.42
2013/14	65.824	-3.91
2014/15	71.034	-8.24

Sources: Appendix 23&24

Figure 4.23

Trend Values of Total Investment to Total Deposit Ratio



The above comparative table shows the trend of NSBL in comparison to EBL of total investment to total deposit ratio. The ratio of NSBL is in increasing trend whereas the ratio of EBL is in decreasing trend. Other things remaining the same, the ratio of total investment to total deposit of NSBL will be 71.034% in F/Y 2014/15, which is the highest during the study period. On the other hand, the ratio of EBL will be -8.24% in F/Y 2014/15, which is lowest during the study period. In conclusion, NSBL is the

strongest than EBL while utilizing its deposit in investments. The above mentioned trend values have been fitted in the trend lines.

4.7.1.2 Trend Analysis of Loan and Advances to Total Deposit Ratio

This heading analyzes the trend of loan and advances to total deposit ratio of NSBL and EBL in comparison with five years study period and projects trend of next five years. The following table describes the trend values of loan and advances to total deposit ratio of NSBL in comparison to EBL.

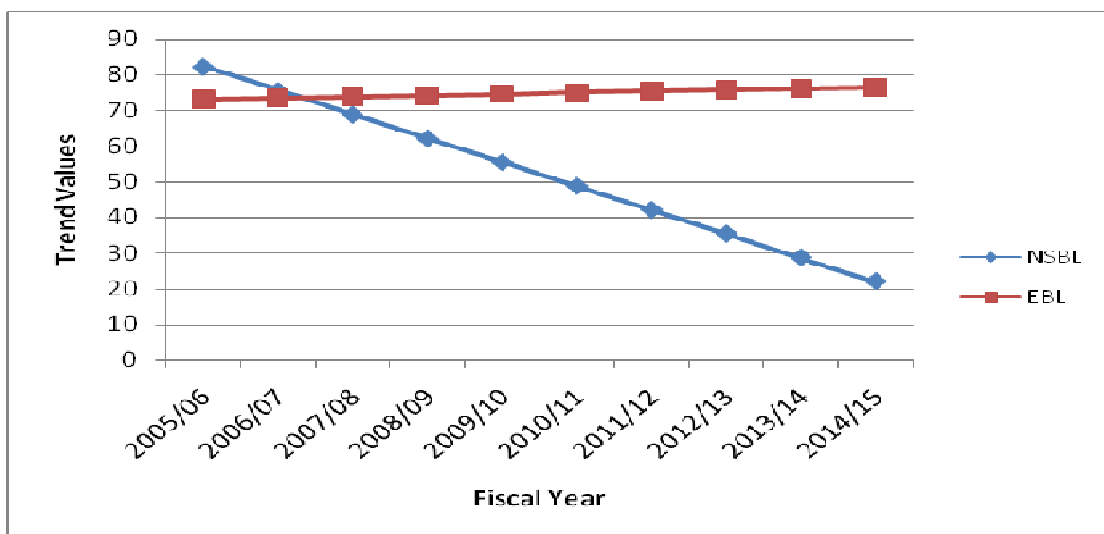
Table 4.24
Trend Values of Loan and Advances to Total Deposit Ratio (%)

Fiscal Year/Banks	Nepal SBI Bank Ltd.	Everest Bank Ltd.
2006/07	82.304	73.034
2007/08	75.604	73.409
2008/09	68.904	73.784
2009/10	62.204	74.159
2010/11	55.504	74.534
2010/11	48.804	74.909
2011/12	42.104	75.284
2012/13	35.404	75.659
2013/14	28.704	76.034
2014/15	22.004	76.409

Sources: Appendix 25&26

Figure 4.24

Trend Analysis of Loan and Advances to Total Deposit Ratio



The above comparative table shows the trend of NSBL in comparison to EBL of loan and advances to total deposit ratio. The ratio of EBL is in increasing trend where as the ratio of NSBL is in decreasing trend.

Other things remaining the same, the ratio of loan and advances to total deposit of NSBL will be 22.004% in F/Y 2014/15, which is the lowest during the study period. On the other hand, the ratio of EBL will be 76.409% in F/Y 2014/15, which is the highest during the study period. In conclusion, EBL is stronger than NSBL while mobilizing its deposit in relation with loan and advances. The above mentioned trend values have been fitted in the trend lines with comparatively applying five years data from F/Y 2006/07 to F/Y 2010/11.

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

4.8 Major Findings of the Study

Liquidity Ratio

The liquidity position of NSBL and EBL reveals that:

- Throughout the study period, current ratios of NSBL & EBL show the stable trend. Both the Banks are in same position in terms of liquidity position. The current ratios of NSBL and EBL are above than the standard level of 1:1.
- The mean ratio of cash and bank balance to total deposits of NSBL is lower than EBL; it states that cash and bank balance in liquidity position of NSBL is lower than EBL. The ratio of NSBL is more consistent than that of EBL.
- In average, NSBL has maintained lower cash & bank balance to total current asset ratio than EBL. It states that the in terms of cash and bank balance to current asset ratio, liquidity position of NSBL is poorer than that of EBL.
- In average, both the banks have invested moderate part of its current assets in govt. securities. Comparatively, NSBL invested less part of its current assets in govt. securities than EBL. It means NSBL is weaker than EBL in investing their current assets to government securities.

- Deposit is the main source of funds of commercial banks. More than 80% of funds come from deposits. The average ratio of deposits to total working fund of NSBL is lesser than that of EBL and NSBL is less consistent than that of EBL while collecting their funds from deposit.

Asset Management Ratio

- The mean ratio of loan and advances to total deposit of NSBL is lower than that of EBL. Further NSBL is less consistent than that of EBL and while mobilizing their total deposits on loan and advances.
- The mean ratio of total investment to total deposit of NSBL is higher than EBL. But NSBL is less consistent than EBL while investing their total deposits on government securities, shares and other investments.
- The mean ratio of loan and Advances to total working fund of NSBL is lower than EBL. Also the variability of ratios of NSBL is lower than EBL.
- In average, the ratio of investment on govt. securities to total working fund of NSBL is 16.82% which is lower than that of EBL i.e 17.28%. This indicates that EBL has invested more portions of its total assets on government securities than NSBL. Further NSBL is less uniform than that of EBL while investing their total assets on government securities.
- In average, the ratio of investment on share and debenture to total working fund of NSBL is 0.15% which is higher than that of EBL i.e 0.07%. This indicates that NSBL has invested more portions of its total assets on shares and debentures than EBL. But NSBL is more uniform than EBL while investing their total assets on shares and debenture.

Activity Ratio

- In average, the ratio of loan loss provision to total loan and advances of NSBL is 5.12% which is higher than that of EBL i.e 2.76%. This indicates that NSBL has more portions of loan loss provision on its total loan & advances than EBL. Further, EBL is more consistent on maintaining lower amount of loan loss provision on its total loan and advances than NSBL.

- In average, the ratio of non performing loan to total loan and advances of NSBL is 3.82% which is higher than that of EBL i.e 0.70%. This indicates that NSBL has more portions of non performing loans than EBL. Further, EBL is more consistent on maintaining quality assets than NSBL.

Profitability Ratio

The profitability ratio of NSBL and EBL reveal that:

- In average, return on loan and advances ratio of NSBL is 2.12% which is lower than that of EBL i.e 2.55%. This indicates that EBL has been able to generate high return on loan and advances than NSBL. Further EBL is more efficient in generating returns on its loan and advances than NSBL.
- In average, return on total working fund ratio of NSBL is 1.25% which is lower than that of EBL i.e 1.65%. This indicates that EBL has been able to generate more return on available sources i.e. total assets than NSBL. Further EBL is utilizing its total assets with more efficiently than NSBL.
- In average, total interest earned to total working fund ratio of NSBL is 5.55% which is lower than that of EBL i.e 6.03%. This indicates that EBL seems stronger to generate more interest income on available sources i.e. total assets than NSBL. But, NSBL is more consistent and stable to earn interest in respect of total assets than EBL.
- In average, total interest earned to total loan and advances ratio of NSBL is 9.75% which is higher than that of EBL i.e 9.29%. This indicates that EBL seems weaker to generate more interest income on loan and advances than NSBL. Further EBL is more consistent and stable to earn interest in respect of total loan and advances than NSBL.
- In average, total interest paid to total working fund ratio of NSBL is 2.93% which is higher than that of EBL i.e 2.76%. This indicates that NSBL is paying more interest on its total working funds than EBL. But, NSBL is more successful to collect its working funds from less expensive sources in comparison to EBL.
- In average, total interest paid to total deposit ratio of NSBL is 3.41% which is higher than that of EBL i.e 3.14%. This indicates that NSBL is paying more interest

on its total deposit than EBL. But, NSBL is more successful to collect its deposit at lower cost in comparison to EBL.

Growth Ratios

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

- The growth ratio of deposit of NSBL is higher than that of EBL. It means the performance of NSBL to collect deposit is greater than EBL.
- The growth ratio of loan and advances of NSBL is lower than that of EBL. It means that the performance of EBL to grant loan and advances in compared to NSBL banks is better.
- The growth ratio of total investment of NSBL is higher than that of EBL. The growth ratio indicates that NSBL seems in better position while making investments in comparison with EBL.
- The growth ratio of net profit of both the banks is in increasing trend throughout the study period. Growth rate of net profit of NSBL & EBL is 35.27% & 36.83% respectively. Volume wise net profit of EBL is better than NSBL. But in terms of growth rate NSBL is not far from EBL.

Trend Analysis and Projection for Next Five Years

The trend analysis of total investment to total deposit ratio and loan and advances to total deposit ratio and projection for next five years of NSBL and EBL reveals that:

- The total investment to total deposit ratio of NSBL is in increasing trend whereas the ratio of EBL is in decreasing trend from the F/Y ended 2006/07 to 2014-15. In conclusion, In conclusion, NSBL is the strongest than EBL while utilizing its deposit in investments.
- The loan and advances to total deposit ratio of EBL is in increasing trend where as the ratio of NSBL is in decreasing trend. In conclusion, In conclusion, EBL is stronger than NSBL while mobilizing its deposit in relation with loan and advances.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

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

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese context, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. Nowadays there are 31 CBs operating in Nepal financial market which is increasing due to the country's move towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these CBs should take initiative action in search of the new opportunities. So they can easily survive in this competitive banking business world & earn profit. A bank and its investment have

a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country.

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

Development of trade, industry and business is the main ground of banks to conduct its activities and fulfill its profit making objectives. The sound investment policy helps all the banks to make profitable investment and which in turns also helps to develop the economic condition of the nation. Investment policy of commercial banks is very risky one. It is the most important factor from the view point of shareholders and bank management. For this, commercial banks have to pay due consideration while formulating investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loans and investment. Commercial banks are not able to utilize its deposits properly i.e. providing loan and advances or lending for a profitable project, the reason behind it is lack of sound investment policy, increasing trend of this type of situation certainly lead closure of the banking institutions.

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

The main focus of the study is to comparative study of investment practices of commercial banks of Nepal SBI Bank Limited and Everest Bank Limited and to suggest for its improvement in the investment policy. The study has been constrained by various common limitations.

The study is based on secondary data from the fiscal year 2005/06 to 2009/10. The data are collected from annual reports, financial statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the bank have also been made.

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

5.2 Conclusion

In average current ratio of NSBL is similar with EBL. The current ratios of both the banks are above than the standard level of 1:1. Further, the ratio of NSBL is the less consistent than that of EBL. The mean ratio of cash and bank balance to total deposits of NSBL is lower than EBL, It states that cash and bank balance in liquidity position of NSBL is lower than EBL. But, the ratio of NSBL is more consistent than that of EBL. In average, NSBL has maintained lower cash & bank balance to total current ratio than EBL. It states that in terms of cash and bank balance to current asset ratio, liquidity position of NSBL is poorer than that of EBL. The ratio indicates that NSBL has taken

more risk to meet the daily cash requirement of its customer deposit than EBL. In average, both the banks have invested moderate part of its current assets in govt. securities. Comparatively, NSBL invested less part of its current assets in govt. securities than EBL. It means NSBL is weaker than EBL in investing their current assets to government securities. Deposit is the main source of funds of commercial banks. More than 80% of funds come from deposits. The average ratio of deposits to total working fund of NSBL is lesser than that of EBL and NSBL is less consistent than that of EBL while collecting their funds from deposit. Throughout the study period deposit has more than 80% contribution on total funds of the two banks.

The mean ratio of loan and advances to total deposit of NSBL is lower than that of EBL. Further NSBL is less consistent than that of EBL and while mobilizing their total deposits on loan and advances. The mean ratio of total investment to total deposit of NSBL is higher than EBL. But NSBL is less consistent than EBL while investing their total deposits on government securities, shares and other investments. In average, the ratio of investment on govt. securities to total working fund of NSBL is 16.82% which is lower than that of EBL i.e 17.28%. This indicates that EBL has invested more portions of its total assets on government securities than NSBL. Further NSBL is less uniform than that of EBL while investing their total assets on government securities. In average, the ratio of investment on share and debenture to total working fund of NSBL is 0.15% which is higher than that of EBL i.e 0.07%. This indicates that NSBL has invested more portions of its total assets on shares and debentures than EBL. But NSBL is more uniform than EBL while investing their total assets on shares and debenture.

The mean ratio of loan loss provision to total loan and advances of NSBL is 5.12% which is higher than that of EBL i.e 2.76%. This indicates that NSBL has more portions of loan loss provision on its total loan & advances than EBL. Further, EBL is more consistent on maintaining lower amount of loan loss provision on its total loan and advances than NSBL. The mean ratio of non performing loan to total loan and advances of NSBL is 3.82% which is higher than that of EBL i.e 0.70%. This indicates that NSBL has more

portions of non performing loans than EBL. Further, EBL is more consistent on maintaining quality assets than NSBL.

In average, return on loan and advances ratio of NSBL is 2.12% which is lower than that of EBL i.e 2.55%. This indicates that EBL has been able to generate high return on loan and advances than NSBL. Further EBL is more efficient in generating returns on its loan and advances than NSBL. In average, return on total working fund ratio of NSBL is 1.25% which is lower than that of EBL i.e 1.65%. This indicates that EBL has been able to generate more return on available sources i.e. total assets than NSBL. Further EBL is utilizing its total assets with more efficiently than NSBL. In average, total interest earned to total working fund ratio of NSBL is 5.55% which is lower than that of EBL i.e 6.03%. This indicates that EBL seems stronger to generate more interest income on available sources i.e. total assets than NSBL. But, NSBL is more consistent and stable to earn interest in respect of total assets than EBL. In average, total interest earned to total loan and advances ratio of NSBL is 9.75% which is higher than that of EBL i.e 9.29%. This indicates that EBL seems weaker to generate more interest income on loan and advances than NSBL. Further EBL is more consistent and stable to earn interest in respect of total loan and advances than NSBL. In average, total interest paid to total working fund ratio of NSBL is 2.93% which is higher than that of EBL i.e 2.76%. This indicates that NSBL is paying more interest on its total working funds than EBL. But, NSBL is more successful to collect its working funds from less expensive sources in comparison to EBL. In average, total interest paid to total deposit ratio of NSBL is 3.41% which is higher than that of EBL i.e 3.14%. This indicates that NSBL is paying more interest on its total deposit than EBL. But, NSBL is more successful to collect its deposit at lower cost in comparison to EBL.

The growth ratio of deposit of NSBL is higher than that of EBL. The growth ratio of loan and advances of NSBL is lower than that of EBL. The growth ratio of total investment of NSBL is higher than that of EBL. The growth ratio of net profit of both the banks is in increasing trend throughout the study period. Volume wise net profit of EBL is better than NSBL. But in terms of growth rate NSBL is not far from EBL.

The total investment to total deposit ratio of NSBL is in increasing trend whereas the ratio of EBL is in decreasing trend from the F/Y ended 2005-06 to 2014-15. In conclusion, In conclusion, NSBL is the strongest than EBL while utilizing its deposit in investments. The loan and advances to total deposit ratio of EBL is in increasing trend where as the ratio of NSBL is in decreasing trend. In conclusion, In conclusion, EBL is stronger than NSBL while mobilizing its deposit in relation with loan and advances.

5.3 Recommendations

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

- The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply as demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situation. As NSBL has maintained lower cash and bank to total deposit and current assets ratio, NSBL is recommended to increase cash and bank balance to meet current obligations and loan demand.
- To get success in competitive banking environment, depositors money must be utilized as loan and advances. Negligence in administering these assets could be the main cause of liquidity crisis in the bank and one of the main reasons of a bank failure. It has been found from the study that EBL have greater ratios at all, because its large portion of fund invested as loan and advances and negligence to invest on other sector. NSBL have not properly used their existing fund as loan and advances to overcome this situation, NSBL and EBL are strongly recommended to follow liberal lending policy.
- As bank of private sector commercial banks cannot keep their eyes closed from the profit motive. They should be careful as increasing profit is a real sense to maintain

the confidence of shareholders, depositors and it's all customers. EBL has high profit earning capacity.

- Out of working fund, NSBL have not invested its more funds as total investment in comparison to EBL. Though, the percentage of invested by both banks have very nominal. So, it is recommended that both banks to invest their more funds in different types of companies' indifferent areas.
- In terms of recovery of loan of NSBL is backward in comparison to EBL. The loan loss ratio is comparatively high that makes negative impact on profit. It may be facing a lot of problems on recovering loans. It has large no-performing asset as loan un-recovered. Therefore it is recommended to apply recovery act that would help to realize overdue loan in time.
- Most of the joint venture banks have focused their banking services especially to big clients such as multinational companies, large-scale industries, manufactures and exporters of garments and carpets. The minimum level bank balance and the amount needed to open an account in these banks are very high amount. So, small depositors are very far from enjoying the banking facilities provided by such joint venture banks. So, the two banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investors' funds and to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme etc.
- In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customers. For this purpose, the banks should develop an "Innovative approach to Bank Marketing"

and formulate new strategies of serving customers in a more convenient and satisfactory way.

- Although NSBL and EBL have recently expanded their branches over the country but both of the banks do not have branches in the rural areas of the country. Their branches are limited to the urban or sub-urban areas only. Therefore, NSBL and EBL are recommended to open branches in rural areas too to help in economic development of the country.

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Appendix 27

Sample Calculation of Growth Rate

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

Where

D_n = Total amount in last year of the study period

D_o = Total amount in the initial year of the study period

g = Growth rate of the amount during the study period.

n = Total no of study period

Growth rate of deposit of NSBL

Here,

$$D_{2010} = 34,896.42$$

$$D_{2006} = 11,002.04$$

$n = 5$ years

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

$$\text{or, } 34,896.42 = 11,002.04 (1+g)^{5-1}$$

$$\text{or, } (1+g)^4 = 34,896.42/11,002.04$$

$$\text{or, } (1+g) = 3.17^{1/4}$$

$$\text{or, } (1+g) = 1.3345$$

$$\text{or, } g = 1.3345-1$$

$$\text{or, } g = 0.3345$$

Therefore, growth rate of deposit of NSBL during the five years study period=0.3345 or 33.45%