

CHAPTER - I

INTRODUCTION

1.1 Background of the study

Investment policy is the proper management of any fund or wealth to maximize value or to obtain this high or favorable return with low risk considering the protection of investment from the inflation and other possible harms. Banks are disbursing their money as investment in trade business and industry. Due to the growth in the banking sector in Nepal and huge competition, investment returns are comparatively low. Therefore, Banks should be following the principle of investment for profit. An investment policy should ensure maximum profit and minimum risk. Investment policy determines the investor's objective and the amount of investable wealth because there is a possible relation between risk and return for sensible investment strategies.

Investment by individuals, business and government involves a present sacrifice of income to get an expected future benefit as a result investment raises an economy of nations. Investment usually involves putting money into a bet, which is not necessarily marketable in order to enjoy a series of returns the investment is expected to yield. On the other hand speculation is usually a shorter run phenomenon. Speculators tend to buy assets with the expectation of a profit that can be earned from subsequent price change and sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future."Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and its magnitude generally is certain" (Shapiro Alexander and Bailly, 1998).

Banking sector specially commercial banks play a vital role in the process of canalizing the available resources in the needed sectors. Financial system consists of two components i.e. depository financial institution and non-depository financial institution. Commercial banks are depository financial institutions whereas provident fund, development bank insurance companies etc. are non-depository financial institutions all the economic activities are directly or indirectly channeled through banks. Banks accept money as a deposit from

public and invest it in form of loan and advances. Financial institutions act as an intermediary role between the persons who lend and who borrow. Bank pools the scattered fund and mobilizes them in productive sector .bank came into existence mainly with the objective of collecting the idle Fund, mobiles them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest and deposited amount of depositor.

Overall national development of any country depends up on the economic development of that country and economic development largely depends up on the financial infrastructure of that country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the weal fare of the people and the nation as well. Nepal being one of least developed countries has been trying to embark up on the path of economic development by economic growth rate and developing all sectors of economy. The commercial Bank is simply a business corporation organized for the purpose of maximizing the value of shareholder's wealth Invested in the bank at an accepted level of risk. They are different from other firm, as their performance is a kin to their financial structure. The amount of the bank's capital risks of its loans and the nature of its deposits of affect its ability to make money and remain profitable.

The banks will generate their income in a different way. They collect money from savers and lend it to borrowers. They make profit by paying less for savings than what they charge to the borrowers. Banks also generate income by providing other services for which they charge fees and commissions. Such services include trust administration, safety deposit account services and others. Meanwhile, banks have also entered in to financial advisory services, foreign trading, processing and investments.

The success of any organization, which in other words means the maximization of wealth of its shareholder, depends amount other thing on its sound investment policy. Development factor of a country is mobilization of domestic resources and their investment for productive use to the various sectors. Integrated and speedy development of the country is possible only when competitive banking services reach every hooks and corners of the country. The fundamentals principals of investment must be followed thoroughly for profitable investment.

Good investment policy ensures maximum amount of investment to all sectors with proper utilization. There is highly liquidity in the market but there is no profitable place to invest. Flowing of money hundred times more than required when required when there were called by the banks and financial institutions is the example of high liquidity in the money market.

The initial step investing policy involves is determining the investment objectives and the amount if one's investing able fund. Investment is always related with risks and returns. Making money alone cannot be an appropriate objective. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Therefore, investment objective should be stated in terms of both risks and returns setting a clear investment objective policy also involve the identification of the potential categories of financial assets depends upon many things such as investment objectives investable fund, tax consideration etc.

Investment is a very risky job for a purposeful, safe and profitable investment. Bank must follow sound investment policy. The fundamental principle of investment must be followed thoroughly for profitable investment. Investment policy should ensure maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market and it seems no profitable place to invest these days investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum risk, which ultimately leads the bank to the path of success to achieve its organizational objectives of shareholders wealth maximum.

Investment operation of commercial bank's is very risky for this, commercial banks have to pay due considerations while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both borrowers and lenders which help to increase the volume and quality of deposits, loans and investment.

1.1.1 Commercial Banks in Nepal

Commercial banks are very important for the development of national economy. They accept public saving as deposits and advance them as loans to the persons, business organizations and government when they required. The development of commercial banks is in increasing

trend after the restoration of democracy in 1990 A.D. The first commercial bank is Nepal Bank Limited that was established in 30 Kartik 1994 B.S (1937 A.D.). And the second is RBB established in 10/10/2022 B.S.

After a long period of establishment of these two banks, NABIL Bank is the first commercial bank from the private sector. This is the first joint venture bank of Nepal also. There after many other joint venture and non joint venture banks were set up under the Commercial Bank Act, 2063 and Company Act, 2053.

Now, Thirty-One Commercial banks are operating in the country. The door is opened now for the establishment of commercial banks with new policy relating to commercial bank issued by Nepal Rastra Bank considering that banking of entrance is not favorable in the liberal and market oriented economic environment and to create the competitive environment. Thus, it is expected that the numbers of commercial banks will be increased in future. According to new policy issued by NRB, the paid up capital of new opening commercial bank at national level must be Rs. 2000 million.

If the newly opened bank is joint venture with foreign bank or financial institution, it is permitted to open new commercial banks with head office at Kathmandu valley contracting three years management with 67% investment of foreign such institution, the ratio of ownership of share will be 7:3 between founder and public respectively.

There are many functions of commercial banks and the principal functions are as follows.

- To accept deposit
- To provide loans and advances
- To create credits
- To perform agency function
- To carry out utility functions.

The commercial bank and banker has its own right and duties. The rights are mentioned point-wise as follows.

- Banker enjoys a general lien over customer's securities in his possession.

- He has an implied right to charge a reasonable commission for his service and interest upon loans.
- He has the right of set-off like any other debtors.
- He has the right to appropriate payment as per the rules laid down in Clayton's case.
- Banker need not seek out the creditor to make the payment. It is the creditor who should demand payment.

Similarly, the duties of banker are as follows.

- To receive his customer's money and cheques and other instruments for collection.
- To repay the customer's deposit on the presentation of customer's mandate known as the cheque.
- To maintain secrecy in respect of customer's account and affairs.

1.2 Profile of Sample Companies

1.2.1 Nepal Investment Bank Ltd. (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricola Indosuez, a subsidiary of one of the largest banking groups in the world. With the decision of Credit Agricola Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricola Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage
- The remaining 20% being held by the General Public

1.2.2 NABIL Bank Limited

NABIL Bank Limited, the first foreign joint venture bank of Nepal commenced operations in July 1984. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society pursuing its objective, NABIL provides a full range of commercial banking services through its 30 points of representation across the kingdom in and over 170 reputed correspondent banks across the globe.

NABIL Bank, as a pioneer in introducing many innovative products and marketing concept in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, Credit cards, state-of-art, world-renowned software from Infosys Technologies system and banking system and Tele-banking system.

1.3 Statement of the Problem

In the contest of Nepal, The financial sector collect adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds, only few commercial banks are getting regular profits. Most of them are unable to satisfy their shareholders and customers in earning profit and ensuring their safe deposit.

The most important problem is poor investment climate prevailing in Nepal due to heavy regulatory procedure, uncertain government policy, NRB's stringent directives, and unsecured social environment.

There are so many problems to collect scattered funds and to invest onto productive area. Nepal is poor and developing country. There are most of the people are under the poverty line. They have the problem to join mouth and hands per day. So how they can collect money and deposit into bank? Government and private sectors are unable to give employment to all educated people. Because of the Globalization and liberalization, people's needs are growing. But Nepalese industries are unable to provide Nepalese products. Then our capital is going out of the country. So, how investment is possible in our country? There are so many

prospects of saving and investment. We should find out the issues of saving and investment to gain prospects of saving and investment. We have got peace process. Banks are growing faster and faster and they are utilizing their best facilities and techniques. The most of remote areas are out of reach of Banks. Now a day there is lack of liquidity in the market. Strikes are being done by Industrial Labors and political parties. These activities are affecting economic sectors. The government has been unable to use 100% of development fund each year. Large numbers of banks existing in the economy. Government has been unable to provide security in each place like SchoolCollege and other. We feel lack of stable Government and its policies toward the investment in our country. Thus our government and concerned sector should concentrate their mind to remove the issues of investment for stable investment policies. Inflation is growing day to day. These above issues are creating problems in investment process of Bank.

- Are the available fund properly utilized or not?
- What is the relationship between investment on loan and advance, deposit and net profit?
- What is the investment portfolio behavior of the banks?

1.4 Objectives of the Study

The main objective of the study is to assess the investment policy and strategy followed by the bank with reference to NIBL and NABIL Bank. The other specific objectives of this study mentioned below.

- To find out the trend of deposit, investment, loan & advance and net profit.
- To access the investment portfolio of sample banks.
- To find out relationship between total investments, deposit, loan & advance and net profit.

1.5 Significance of the Study

The focus of study is to highlight the investment process of commercial banks expecting that the study can be bridge the gap between deposit and investment process. On the other hand,

the study would provide information to management of the bank that would help them to take collective action. Investment is the most important means of economic development. If savings are invested in unproductive area economic growth will be broke out. So any firm or company should take right polices of investment. So issues of investment should be found out and solved. Then investment will be means of economic development of a country.

Suitable strategy plays vital role in a bank for their sustain existence. The study will be helpful to aware the shareholder regarding investment policies of their banks. The study suggests to the management how they can improve their managing power and recommends what is the clue to raise the profit. Though, this is only study but it gives feedback to policy makers, will useful them who formulate the policy for regulation. All stakeholders can identify which bank is the best and to whom have to invest.

1.6 Limitations of the Study

Although there are several commercial banks in Nepal but the study has been confined to two sampled banks i.e NIBL and NABIL Bank ltd. The main limitations of the study are as follows.

- This study is mainly based on secondary data collected from annual report, journals, Websites and different articles.
- This study covers five years data i.e. 2008/09 to 2012/13 fiscal years.
- This study has taken only two commercial banks as a sampled among 30 commercial banks.
- This study is only focus on investment policy of commercial banks.
- Financial as well as statistical tools were used for analysis.

1.7 Organization of the Study

The research will be divided into five chapters.

Chapter -I- Introduction

This chapter deals with the subjects matters of the study consisting background of study, profile of sample companies, statement of problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter -II - Review of Literature

This chapter deals with review of the different literature of the study field. Therefore, it includes conceptual framework along with the review of major books, journal, research work and thesis etc.

Chapter - III- Research Methodology

This chapter includes research design, population & sample, sources and types of data, data processing and method of analysis.

Chapter - IV- Data Presentation and Analysis

This chapter deals with analysis and interpretation of the data using financial and statistical tools describe in chapter three. Similarly, this chapter also includes the major findings of the study.

Chapter - V- Summary, Conclusion and Recommendation

This is the last chapter of the study. It summarizes the result of analysis and suggestive framework.

Besides these, bibliography and annexure are presented at the end of the thesis. Similarly recommendation, viva voice sheet, acknowledgements, table of contents, list of tables, list of figures and abbreviations are included in the front part of the thesis report.

CHAPTER - II

REVIEW OF LITERATURE

After selecting the topic of the research, researcher should study different journals, periodicals, newspaper, published bibliographies, books etc. to collect or gathering the information about the selected topic of the research. This process of studying different educational materials is known as review of literature. In simply review of literature means to collect the information about the selected topic of the research through the different sources. Review of literature means stock taking of available literature in one's field of research. Literature review is a comprehensive review of previous works on the general and specific topics considered in the report. The literature review may also serve as a kind of bibliographic index and guide for the readers. It also demonstrates where the current study fits into the scheme of things. The objective of reviewing the literature is to develop certain expertise and knowledge in one's area. Under this topic the following subject matter are reviewed.

- Conceptual Review
- Review of Journal & Articles
- Review of Previous Thesis

2.1 Conceptual Frame Work

The review of textbooks and other reference materials such as: newspapers, magazines, research articles, journals and past thesis have been included in this topic. Under the investment policy of commercial banks is matters are considered like the mobilization strategy of the bank, documentation of fund mobilization processing, review process, etc.

2.1.1 Concept of Investment

Investment can be defined as sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future but return is uncertain too. Uncertainty is measured by risk that why there is always involvement of risk in investment. Investment usually involves putting money into abet, which is not necessarily

marketable in order to enjoy a series of return the investment is expected to yield. On the other hand speculation is usually a shorter than phenomena. Speculators tend to buy assets with expecting of a profit that can be earned from subsequent price change & sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future.

“Investment is made in assets. Assets in all are of two types’ real assets (land, building, factories etc.) and financial assets (stock, bond, t-bills etc.). These two investments are not competitive but complementary. Highly developed institutions for financial greatly facilitate real investment” (Bhattarai, 2004: 142). "Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of certain income and present value of all future income" (Jones, 1999: 33).

Investment is nothing but deploying our saving in manner that ensures safety of our money & provides a sustained return to supplement our regular income (Delhi Stock exchange 2002). The term investment covers a possible where there are devour saving. If all the income & saving are consumed to solve the problems of hand to month and to other basis needs then there is no existence of in investment are interrelated.

2.1.2 Principle of Investment Policy

It is universally known fact that the most important problem in banking administration is that of investing its deposits and paid up capital in various forms of earning assets. This is also known as portfolio policy. The bank’s portfolio being nothing but an arranged and digested scheme of its assets.

The funds of banks are generally invested either in those assets, which are non-profitable, or those, which are profitable. Non-profitable assets include cash reserve and the dead stock and profitable assets includes call money, investment, advances and loan, cash credits, overdrafts, discounting of bills and acceptances etc. The guiding principle of sound investment is as follows.

1. **Safety:-** Safety would be the first guiding principle of a bank, so far as its advances and investment are concerned, because the very existence of a bank depends on the

safety of its outstanding, which should never therefore be sacrificed to the profit-earning capacity of its advances. This has led people to believe that a bank will never advance any loan, unless it is fully secured. Such is no doubt the ideal conception of banking, but as a result of its competition from other banks, every bank has to grant a certain number of loans to its customers against their personal security. In such cases, the bank uses discretion and never lends a sum obviously beyond its customer's resources. Consequently, to maintain a banking concern in sound condition should be above suspicion. Scrupulous care should be taken that the funds lent out are not subject to any risk of being lost.

2. **Liquidity:-** While making advances and investments, the bank must see that the money it is lending is not going to be locked up for a long time, which would make its loans and advances less liquid and more difficult to realize in cases of emergency. A bank can afford to lend funds only for a short period, as its liabilities are either payable on demand or at short notice. If it makes advances for long term there is no likelihood of its being able to recall such loans in time to meet the demands of its depositors.
3. **Diversification of Risk:-** It is also necessary to remember that a prudent bank must avoid investing all its funds in meeting the needs of any one industry or any one group of industries for considerations of self-interest as well as the larger public good. The imprudence of putting one's own eggs into one basket cannot be too often reiterated. Therefore bank should invest their funds in different fields than investing in same field or sector.
4. **Return:-** Another important factor that it determines the decision of the bank whether or not to grant loan or to make an investment will depend upon the answer to the question whether or not it will get a fair return on its investment. A bank always aims at securing maximum profits for its share-holders. The difference between borrowings and lending rate constitutes the gross profit and no bank ordinarily will think of an advance without a satisfaction margin of profit.
5. **Marketability:-** The investments of the bank should be such as can be easily sold and realized in cash readily. Loans given against commercial paper representing goods in transit or against stocks and shares of well-known companies are easily realizable while loans given against immovable property cannot be easily realized. The bank

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

6. **Stability of Price:-** The primary object of a bank in buying securities is not to gain by a possible rise in their prices, which is the aim of a speculating dabbler. Therefore the price of the securities should be liable to wide fluctuations.
7. **Stock Exchange Securities:-** This consists of government securities as well as securities of the joint stock companies. These securities are easily and quickly realizable. As they are quoted on the stock exchanges so their values can be easily ascertained. In case of need, a bank can either sell them or pledge them without any hesitation. But before accepting them, the bankers should see that the shares of the companies are not partly paid, that sufficient margin has been kept and they are negotiable. Speculative shares should not be accepted.

2.1.3 Features of Investment Policy

Income and profit of the financial institutions like commercial banks and financial institutions depend upon its lending procedure, lending policy and mobilizing collected fund through investing in different securities. The greater the credit created by the bank the higher will be the profitability. Some required features of sound lending policy and fund mobilization is explained as under:

Safety and Security:- Financial institutions should invest their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

Legality:- Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be lost.

Liquidity:- Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

Profitability:- To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.

Tangibility:- A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible property doesn't yield an income a part from intangible securities, which have lost their value due to price level inflation.

Purpose of loan:- Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. So, they should collect detailed information about the plan and scheme of the borrowing.

Diversification:- A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

Factors Affecting Investment Decisions

1. Return

Investments are made to earn returns. The return expectation can be the amount received as interest, dividend received on stocks, capital

appreciation on assets and many more. Different investments have different returns. Returns from an investment depend on its rating, liquidity and time horizon of the investment. It is measured as Holding Period Return.

2. Risk

Savings becomes investment because of the risk factor. Risk is an inherent part of any investment activity. Some of the risk associated with an investment can be –

- A. Loss of capital
- B. Delay in repayment of capital
- C. Non payment of Interest
- D. Variability of returns

Different investment products have different risk. Government securities, bank deposits have higher safety and negligible risk. Equity shares have higher risk on the other end. It can give huge profit and at the same time has the potential to erode the capital. Risk and return are directly related. Higher the risk taken, higher can be the return, similarly low return comes with low risk. Basic risk measurement terms are :

Variance: It is the mean of squares of deviations of individual returns around their average value.

Standard deviation: It is the square root of variance, the deviation of actual returns from expected returns.

Beta: This measures the volatility of return of an investment in relation to the market return.

3. Safety

An investment is considered to be safe, if there is a certainty of return of capital without any loss of the same. The safety on probable return is generally illustrated by the ratings of the investment vehicles. A (AAA) bond signifies highest possibility of return of capital with accrued benefits to the bond holder. This is a prime characteristic of investments, as every investor invests to get back his/her capital together with profit.

4. Liquidity

It is an important feature of any investment. The yield on any investment is to an extent a function of liquidity. It can be defined as the property of an investment, wherein it can be converted in cash on demand, without loss in value. Liquidity in marketable assets are provided by the market, while non marketable assets like fixed deposits cannot be liquidated in market but can be offered for premature repayment to bank.

5. Tax efficiency

Some investments offer tax benefits, while others don't. An ideal investment is that which offers tax efficient return commensurate to risk with safety and liquidity. Tax benefits available to an investment can be any one of the following:

2.1.4 Investment Uncertainty (Risk)

Every investment involves uncertainties that make future investment returns risky. Some of the sources of uncertainty that contribute to investment risk are as follows.

1. **Purchasing power Risk:-** It is the variability of return an investor suffers because of inflation. The rate of inflation is measured by using a consumer price index (CPI). The percentage change in the CPI is a widely followed measure of the rate of inflation.
2. **Bull-Bear Market Risk:-** Bull-Bear market risk arises from the variability in market return resulting from alternating bull and bear market forces. When a security index rises fairly consistently from a low point called a trough, for a period of time, this upward trend is called a bull market. The bull market ends when the market index reaches a peak and starts a downward trend. The period during which the market declines to the next trough is called bear market.
3. **Default Risk:-** It is the portion of an investment's total risk that results from changes in the financial integrity of the investment. Default risk is the variability of return that investors experience as a result of changes in the creditworthiness of a firm in which they invest. Investor losses from default risk usually result from security prices falling as the financial integrity of a firm weakens. By the time an actual bankruptcy occurs, the market prices of the troubled firm's securities will already have declined to near zero.

4. **Liquidity Risk:-** It is that portion of an assets total variability which results from price discounts given or salescommissions paid in order to sell the asset without delay. Perfectly liquid are highly marketable and suffer no liquidation costs. Liquid assets are not readily marketable – either price discounts must be given or sales commissions must be paid, or both of these costs must be incurred by the seller. Hence, the more liquid an asset is, the larger the price discounts and/or commissions which must be given up by the seller in order to affect a quick sale.
5. **Callability Risk:-** Some bonds and preferred stocks are issued with a provision that allows the issuer to call them in for repurchase. The portion of a securities total variability of return that derives from the possibility that the issue may be called is the callability risk. Callability risk commands a risk premium that comes in the form of a slightly higher average rate of return. This additional return should increase as the risk that the issue will be called increases.
6. **Convertibility Risk:-** Convertibility risk is that portion of the total variability of return from a convertible bond or a convertible preferred stock that reflects the possibility that the investment may be converted into the issuer's common stock.
7. **Political Risk:-** The portion of an asset's total variability of return caused by changes in the political environment that affect the asset's market value. Whether the changes that cause political risk are sought by political or by economic interests, the resulting variability of return is called political risk.
8. **Industry Risk:-** An industry may be viewed as a group of companies that compete with each other in a market of homogeneous product. Industry risk is that portion of an investment's total variability of return caused by events that affect the products and firms that make up an industry. The stage of the industry's life cycle, international tariffs and/or quotas on the products produced by an industry, product or industry related taxes; industry wide labour union problems, environmental restrictions, raw material availability, and similar factors interact and affect all the firms in an industry simultaneously. As a result of these commonalities, the process of the securities issued by competing firms tends to rise and fall together.

2.1.5 Investment Portfolio

A portfolio is usually defined as a combination of assets. It is a collection of securities. Portfolio means the lists of holding in securities owned by an investor or institution. A portfolio is a collection of investment securities. Example, if any company or a person holds some stocks of Nepal Investment Bank Ltd., some of Bottlers Nepal Co., some of Radisson Hotel and some of Standard Chartered Bank Limited, then the investment portfolio consists of the stocks of these four different companies. Portfolio analysis considers the determination of future risk; and return is a weighted average of the expected return of the individual securities.

Portfolio theory deals with the selection of optimal portfolio i.e. the portfolio that provides the highest possible return for any specified degree of risk or the lowest possible risk for any specified rate of return. Portfolio theory has been developed for the financial assets. Thus making investment from the selected optimal portfolio i.e. the portfolio that provides the highest rate of return with least possible amount of risk is the real investment portfolio.

“A portfolio simply represents the practice among the investors of having their funds in more than one asset. The combination of investment assets is called a portfolio” (Weston, J.F. and Brigham, E.F. 1982).

An investor who has been paying someone or actively manages his or her portfolio has every right to insist on knowing what sort of performance was obtained. Such information can be used to alter either the constraint placed on the manager, the investment objective given to the manager, to the amount of money allocated to manager. Perhaps more importantly, by evaluating performance in specified ways a client can forcefully communicate his/her interest to the investment manager and in all likelihood, affect the way in which his or her portfolio is managed in the future. Moreover, an investment manager, by evaluating his or her own performance, can identify sources of strengths or weakness.

Legal Provision related to investment policy of commercial banks

Banks and Financial Institutions Regulation Department NRB (Directives No. 8/070) following Directives have been issued with regard to investment of financial

resources of a licensed institution having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

1. Implementation of Investment Policy and Procedures upon Approval
The licensed institutions shall implement the policies and procedures regarding the investment in Government of Nepal securities, Nepal Rastra Bank bonds, and other corporate bodies' share and debentures only upon the approval of investment policy and procedures by the Board of Directors.
2. Provision for Investment in Government of Nepal Securities and Nepal Rastra Bank Bonds. There shall be no restriction as to investment by the licensed institutions in these securities of Government of Nepal and Nepal Rastra Bank bonds.
3. **Provisions for Investment in Shares and Debenture of Corporate Bodies**
 - Licensed Institutions shall invest only in the shares and debentures of corporate bodies listed in the Nepal Stock Exchange after the public issues of shares. Provided that, where the investment has been made in the shares and debentures of corporate bodies which are not listed in the stock exchange, and if such listing is not completed within one year from the date of investment, a provision of equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve by creating such reserve fund. The outstanding amount in such Reserve shall not be utilized for any other purpose till the said shares and securities of the corporate body are listed. With respect to investment in newly opened corporate body that where such company is not listed in stock exchange within two years from the date of operation or investment being made, a provision of equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve.
 - While carrying out projects such as land development, land purchase and housing construction for residential purpose and sale and management of such houses and land pursuant to clause (ad) of sub-Section (2) of Section 47 of the Banks and Financial Institutions Act, 2006 by the class "B" licensed institutions and pursuant to clause (u) of sub-Section (3) of the same Section of the same Act, licensed institution shall not invest more than twenty-five percent of the core capital of immediately preceding month.
 - While investing in housing construction and land development by a licensed institution, it may invest an amount not exceeding ten percent of the core

capital maintained immediately preceding month. If found to have been invested more than the limit, the core capital shall be maintained having deducted the amount equal to the exceeded investment from the core capital. While making such investment, investment shall be made only in the building construction and land development companies that have been incorporated as public companies.

- Licensed institutions may invest in shares and securities of any one corporate body up to 10 percent of its core capital maintained at immediately preceding trimester and not exceeding the cumulative amount of such investment in all the companies by more than 30 percent of its core capital. Similarly, while investing in shares and debentures of corporate bodies by a licensed institution, investments shall be made not exceeding 10 percent of the paid up capital of the institution in which the investment is being made and not exceeding 25 percent of the same in case of investment made in class "D" institutions. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the Core capital fund.
- Chairperson/member of a parent company shall not be allowed to be the chairperson or member of the subsidiary company. In case of Directors who are Directors in the subsidiary company prior to issuance of these Directives on May 10, 2010, he/she shall have to move from it before the upcoming first general meeting of the parent company or within one year of issuance of this directive, whichever is earlier.

4. Provision for Review of Investment Portfolios

- Licensed institutions shall review its investment portfolios on half-yearly basis. With respect to such review, a statement from the Internal Auditor of the licensed institution certifying that the investments are made according to the existing investment policy and according to this Directives be obtained and shall also be approved by the management of the institution within 1 (one) month from the close of the half yearly period. A copy of the approval of the management of the institution shall be submitted within Falgun 15 (end of February) and Bhadra 15 (end of August) of each fiscal year to this Bank's Bank and Financial Institutions Regulation Department and concerned Supervision Department.

5. Valuation of Shares and Debentures

- The investments of the licensed institutions in shares and debentures shall be separated company wise according to Directives Form No. 8.1, 8.2 and 8.3. It shall be shown in its assets having evaluated it semiannually based on the purchase price or the market price, whichever is lesser. Provided that, where the market price of any company's shares or debenture falls below the cost price, the difference amount has to be debited to the Profit and Loss Account and credited to provision for loss in investment account.
- Moreover, while evaluating investment, it shall have to be evaluated according to the provision made in Points 2 and 2.B.3 (Investment Policy) of Directives No. 4/067 and the details thereof shall be prepared in the format of Nepal Rastra Bank Directive form No. 8.2.

6. Provisions Relating to Purchase/Investment in Fixed Assets (House/Land) For Own Purpose

- The banks of financial institutions incorporated and in operation under the B to F1A shall be allowed to purchase/invest in the fixed assets. (house/land) for the self purpose in the case they meet the following terms and conditions:
- Entire pre-operating expenses of the bank/financial institution is written off.
- The first general meeting is completed upon issue of shares to general public as refund to in the Memorandum of Association/Articles of Association.
- The institution is in profit at the time of purchase of the property.
- The capital fund is adequate according to the Directives issued by this Bank. Moreover, in case of purchase of investment in the fixed assets without meeting the said terms and conditions; the amount equivalent to that to be deducted while calculating the core capital fund.

7. Additional Arrangement Regarding Investment

- Licensed institutions shall not invest in any shares, securities and hybrid capital instruments issued by any other institution of "A", "B" and "C" class licensed by this Bank. Provided that, this clause is not applicable in case of share investment in class "D" institution and income of share investment with approval from this Bank.

- The core capital maintained in the Directives relating to investment means, the core capital maintained at the immediately preceding trimester except specifically stated otherwise.

2.2 Review of related studies

2.2.1 Review of Books

Frank K. R. (2005), "*Investment Analysis Management*" has defined the term investment, "Investment is the current commitment of funds for a period of time to obtain a future flow of funds that will compensate the investment unit for the time the funds are committed for the expected rate of inflation & also for the uncertainty involved in the future flow of fund. (Investment, Japan: the Oryden Press, CBS Publisher Ltd.)

From the above definition, it is clear that an investment means to trade a known rupee amount for some expected future stream of payment or benefits that will exceed currently outlay by an amount that will compensate the investor for the time of uncertainty involved in expected future cash flows. This investment is the most important function of commercial banks. It is a very challenging task for commercial banks. So, a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investable funds.

William and J. C. (2005), "*Investment Policy and its Management*" Investment in its broadening sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and its magnitude is generally uncertain.

- **Real Investment:** Generally, it involves some kind of tangible assets such as: land, machinery & factories.
- **Financial Investment:** Involves contracts written on paper such as: common stocks & bonds.

Pandey, I. M. (2006), "*Investment Decision*" in investment analysis, cash flow is more important than accounting profit. It may also be pointed out that investment decision affects

the firm's value. The firm's value will increase if investments are profitable and add to the shareholder's wealth. Thus, investment should be evaluated on the basis of criteria, which is compatible with the objectives of the shareholder's fund maximization. An investment will add to the shareholder's wealth if it yields benefit in excess of the minimum benefits as per the opportunity cost of capital.

Chancy, J. M. & Moses, E. A. (2008), “*Investment Analysis*” focuses on the individual investment. They states, it is important that the investor set the appropriate investment objectives & the accompanying investment horizon. In addition, in developing investment strategies to achieve the objectives, the investor must understand the tax conservancies and expected risk & return associated with the various investment alternatives per haves most importantly the investor should recognize that achieving & investment objective involves the creation of a portfolio of assets and not a collection of individual assets. They further states that, individual assets may be very risk. Combining these assets into a portfolio of other assets may actually reduce the risk of the overall risk.

2.2.2 Review of Journal and Articles

Pradhan (2003), in his research paper “*Role of Saving, Investment & Capital Formation in Economic Development of Nepal*” has studied about the strong role & 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 been collected for the period of 1974/75 to 2000/01. The role & impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equation used in this study have been estimated at current prices as well as in real term with the entire study period divided into different sub-period.

The results presented in this paper suggest that in all cases GOP 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 three important conclusions: first, saving, investment & capital formation have positive impact on economic development. Second, the current values & past values of saving, investment & capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role

played by saving & capital formation on economic development while weak role-played by investment.

World Bank Encyclopedia (2005), states that investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in bank. For example, the bank may invest by lending the fund of various business companies. These firms, in return, may invest the money in new factories and equipment to increase their production. In addition to borrowing from the banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in such projects as the construction of dams, roads and schools. All such investment by individuals, business and govt. involves a present sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living.

Joshi (2007), in the article '*Rural saving mobilization in Nepal*' states that the ability to save and the incentive to save are the two major determinants of saving. The incentive to save as reflected in NRB real interest rate policy can be stretched for with profit. It is highly probable that the further increase in the growth rate of financial saving can be materialized if a flexible policy is pursued to keep real interest rate at a positive level. Eventually the deposit expansion is to be bounded constrained by the low saving ability of the people as indicated by stagnant per capital GDP over the past decade.

Kayastha (2010) in her article "*Lending Operation of Commercial Banks of Nepal and its Impact on GDP*" has made an analysis of contribution of commercial banks, lending to the Gross Domestic Product (GDP) 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 sector of lending like agriculture, industrial, commercial service and general social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution.

The analysis shows that the entire variable except service sector lending has positive impact on GDP. Thus, in the conclusion she had accepted the hypothesis i.e. there has been positive impact on GDP and also she has accepted the hypothesis i.e. there has been positive impact by the lending of Commercial Banks in various investment.

2.2.3 Review of Unpublished Thesis

Dhungana (2007), his research, "*A Comparative Study on Investment Policy of Nepal, Bangladesh Bank and Other Joint Venture Banks*", tries to compare the Investment policy of NBBL with HBL and NSBL.

His Main Objectives:

- To study the growth ratios of loan and advance and investment to total deposit and net profit of NBBL on comparison with HBL and NSBL.
- To analyze the relationship between loan and advance and total investment with other financial variable of NBBL and compare with HBL and NSBL.
- To examine the profitability position and credit risk ratios and interest risk ratios.

His Major Findings:

- NBBL has not good deposit collection, it hasn't made enough cash and bank balance and it has made negligible amount of investment in government securities.
- The Asset management ratios were highly variable which reveals NBBL has not followed stable policy.
- NBBL's ratio of OBS operation to loan and Advances lower than that of HBL but its ratio is greater than that of NSBL.
- The profitability position on NBBL is comparatively not better than that of HBL but better than that of NSBL.
- The credit risk ratios and interest risk ratios of NBBL is higher than that of HBL and NSBL.
- Banks profitability is solely depends on Interest charged by a bank but the high interest rate risk of NBBL shows that bank is failure to maintain this.
- Trend of deposit collection, lending, Investment and net profit were not better than HBL but better than NSBL.

His Major Recommendations:

- To increasing liquidity position of NBBL and making more investment in government securities.
- To implement a sound collection policy and more mobilization of interest bearing assets.

- To have effective portfolio management, to have liberal lending policy and to upgrade the banking facility.

Sanjel (2008), has carried out a research work on the topic “*Analysis of Investment Policy of Commercial Bank*”. The main objective of the present study is to analyze the liquidity position as well as the investment policy adopted by NBBL, HBL and SCBNL and comparison of such between themselves. Presently the bankers are facing a huge tension of liquidity and this is not a good signal toward the performance of the banks. The study focuses whether it is backward or forward in investing its fund efficiently in industry average. The specific objectives of the study were given below.

- To evaluate the liquidity, assets management, efficiency and profitability of HBL, NBBL and SCBNL
- To analyze the deposit utilization trend of the HBL, NBBL and SCBNL.
- To analyze the relationship between total investment with other financial variables of HBL, NBBL and SCBNL and comparison between them.
- To recommend the package of workable suggestions and possible guidelines to improve investment policy of HBL, NBBL and SCBNL based on the finding of the study.

Based on this study, her major findings were;

- The mean ratio & CV of current ratio of SCBNL is satisfactory. Only the SCBNL seems capable of paying current obligations. The ratio of HBL seems improving but the NBBL ' trend is deteriorating.
- The mean ratio & CV of cash and bank balance to total deposit ratio of HBL is higher. Higher ratio of HBL shows that it is able to serve the demand of its customers i.e. it is operating at the lower risk. The mean ratio of SCBNL and NBBL are lower than HBL but seems satisfactory. On the basis of CV it can be conducted that the ratio of SCBNL and NBBL are more consistent than that of HBL.
- The mean ratio and CV of cash and bank balance to current assets ratio of HBL is higher. NBBL takes place after HBL. SCBNL is also satisfactory position and has

more consistent on the ratios. The ability of HBL to make the quick payment of its customer deposits on the basis of its most liquid assets i.e. cash & bank balance is higher.

- The mean ratio & CV of investment in government securities to current assets ratio of SCBNL has been found higher and more consistent. SCBNL has better position, HBL has average and NBBL from the point of view of investment in government securities is poor.

Shrestha (2009), in her study “*A Comparative Study on Investment Policy of Joint Venture Banks*” has studied primarily of four commercial banks i.e. Himalayan Bank Ltd., Nepal SBI Bank Ltd., and Everest Bank Ltd. & Bank of Kathmandu Ltd. The main objectives of her studies were as follows.

- To compare, analysis & evaluate the investment policy of these four commercial banks.
- To evaluate, liquidity, activity & portfolio ratios of these banks.
- To find out the deposit collection & the effectiveness of fund mobilization.

The Conclusion of the research study is as follows:

Shrestha (2010), has carried out a research work on the topic “*Impact of Investment on Economic Development*”. The main objective of this study attempts to assess the role and impact of investment on economic development of the country.

The main objectives of this study were as follows:

- To analyze the present position of commercial banks regarding investment policy.
- To analyze investment trend and their projection of selected commercial banks.
- To identify investment sector of selected commercial banks.
- To assess the impact of investment policy on performance.
- To make the suggestion, recommendation of the study.

The major findings of this study were;

- Mean ratio of HBL investment to total commercial banks investment is 10.64% which is extremely higher than that of other banks to total commercial banks.
- NSBL has invested most of their fund in government securities than other banks. Likewise NIBL. HBL, SCBNL and NIBL has started to invest in other sector from FY 2062.
- All the banks has invested fewer funds to share and capital of other company. The commercial banks mostly invest on government securities, NRB bond and share and debentures of other company.
- The mean ratio of Investment of Total deposit of HBL is 31.60% which is higher than other banks.
- BOKL has use its more fund on share and debenture of other companies than other banks. SCBNL has 0.11% which is less ratio of investment on share and debenture of other companies than other banks. It means SCBNL less invest its fund on share and debenture.
- Growth ratio of deposits of SCBNL is 31.31% which is higher than that other banks and HBL has 8.72% which is lower growth ratio of deposit. All the banks are increasing their deposit.

Lamsal (2011) has carried out a research work on the topic “*Mobilization of Deposit & Investment of Nabil Bank Limited*” The major objective of the study is to analyze the deposit and investment position of NABIL bank and the other specific objectives were as follows.

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

- To compare the performance of deposit and investment of NABIL.

The major findings of this study were as follows.

- The current deposit, saving deposit, and margin deposit are in fluctuating trend over the study period and the call deposit and fixed deposit are in increasing trend over the study period.
- The total deposit of NABIL is in increasing trend in FY 2062/063 the total deposit is Rs. 19347.39 million and then increase by 20.65% in the fiscal year 2063/064, 32.73% in FY 2064/065, 17.02% in FY 2065/066 and 24.26% in FY 2066/067.
- Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 17.03% in FY 2066/067 and the lowest ratio is 14.55% in the FY 2064/065. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 45.33% in FY 2062/63 and the lowest ratio is 29.33% in FY 2066/067.
- The fixed deposit to total deposit ratio is in increasing trend except FY 2066/067. The highest FD to TD ratio is 33.99% in the FY 2066/067 and the lowest ratio is 17.83% in the FY 2062/063. The mean value of CD to TD, SD to TD and FD to TD are 20.90, 54.95 and 15.90 respectively and standard deviation is 4.15, 11.55 and 6.99 respectively.

Khatri (2012) has carried out a research work on the topic “*Mobilization of Deposit and Investment of Nabil Bank Limited*”. The purpose of the study will be to examine the relationship between the amount of total deposit and amount of total credit granted by Nabil.

The main objectives of the study are;

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

The major findings of this study are;

- The analysis reveals that the banks attraction toward saving deposit seems to be satisfactory. But it is not stable increasing in percentage during the study period. It is continuous to increasing in the last of the study period.
- The changes in percentage in all deposits are in increasing trend. But last of the study period it is little fluctuate. The analysis reveals that the banks attraction towards total deposit seems to be satisfactory. Though the percentage changes are not stable, the change in ratio is in average. In case of percentage change in credit amount, the bank's attraction towards credit amount is satisfactory.
- The growth ratio of total deposit of Nabil by analysis of 15 years period is 13.48%. It means the bank is able to maintain 13.48% growth rate. This ratio measures the capacity of the bank to maintain the percentage of total deposit. Since the growth ratio of total deposit is 13.48%, the bank must improve its deposit collection in high growth ratio. Similarly the growth ratio of total credit is 17%. So the bank seems in strong condition to increase the total credit than the total deposit growth rate.
- The total deposit has found in increasing trend. The total deposit of Nabil will be Rs. 17544.74 lakhs in the 2009, if other things remain same. Similarly the credit also found in increasing trend. The amount of total credit will be Rs. 10408.03 lakhs in 2009. if other factors remain the constant.
- Bank's deposit collection is satisfactory but due to lack of investing opportunities it is unable to use its funds. Bank considers various possible factors while making lending. Such as: safety and security, profitability, feasibility of project available of resources diversification, legality etc. Lending process is lengthy because it takes long time to get loan from the bank. Manager generally visits to the investor once a year to get information about the business. This is very helpful to the investors.

2.3 Research Gap

Since so many years the study has been done on the topic investment policy analysis. Most of the studies are related with investment and deposit. They mainly focus on the data available. However, such special study related to investment policy analysis has been limited. In this study, the researcher has attempted to evaluate the effectiveness of investment policy of Nepalese commercial bank, in order to know somehow about the practical experience of

investment policy analysis. So this study will be fruitful to those interested persons, students, scholars, stakeholder, civil society, teachers, businessmen and government for academically as well as policy perspective.

The purpose of the research work is quite different from the studies made by the above persons (related to commercial bank). This study focus on effectiveness of investment policy analysis of NIBL and NABIL Bank Limited. Different financial & statistical tools have been used in this study among them, investment portfolio, ratio analysis, trend analysis, correlation are the strong tools. So, this study is a different than previous studies. It may be one of them research study of investment policy in few research work with reference to NIBL and NABIL Bank. This study tires to indicate the effectiveness of investment policy of concerned banks.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. (C.R. Kothari, 1989) in other words, research methodology describes the method & process applied in the entire aspect of the study. It is a way to solve the research problem systematically & scientifically. A fact research methodology is much vague than research methods i.e. research method is just a part of research methodology. It considers the logic behind the use of the methods in the context of research study & explains why a particular method or techniques are used. Thus, research methodology is concerned about not only the different types of methods used but also about various other facts like what data have been collected, what are the purpose & problem of research etc. So, to set up the research methodology that has been adopted for the study is mentioned in this chapter, which deals with the research design, sources of data, data collection, population & sample, processing & tabulating procedures.

3.1 Research Design

Research design means an overall framework for the activities to be taken during the course of a research study. It enables the way of research providing the tools & techniques for the data collection & analysis & sampling plan to be followed. Generally research design describes the general plan for collecting analyzing & evaluating data after identifying. It is an integrated system that guides the researcher in formulating, implementing & controlling the study conceived so as to obtain answers to research questions & to control variance. Both analytical & descriptive methods have been used to attain the overall objectives. Firstly, it specifies the sources & type of information relevant to research question, secondly it specifies; the data. Thus, a research design specifies various methods & procedures for acquiring the information including from which sources & by what procedure it is obtained.

3.2 Sources of Data

The study is mainly based on secondary data, secondary data are those data that are collected by someone else or used already & made available to other in the form of published statistics such as annual reports, periodicals, newspapers, magazines etc. once a primary data is used; it loses its originality & becomes secondary. This study is mainly depends on the use of secondary data that consists of annual reports of the concern banks. However besides the annual reports various other sources of data have also been used for the purpose of the study plan documents, newspaper, magazine, economic journals, NRB reports etc.

Data are collected from concern banks, NepalRastra Bank, NEPSE, SEBON and various libraries. Likewise, the micro-level data have been derived from the different libraries, such as Shanker Dev campus, Nepal commerce campus, TU central library etc. Furthermore, several data and information were gathered from periodicals, economic journals and the other published and unpublished reports. Informal interview with the authorities of related institutions are also the other sources of data.

3.3 Population & Sample

Population or universe refers to the industries of the same-nature of its service & product. It is the collection or the aggregate of objects or the set of results of an operation. On the other hand sample means the representative parts of population selected from it with the objectives of investigating its properties. Thus, a sample is just a portion of the population selected with a view to draw conclusions about the population under study. There are 30 commercial banks in Nepal according to NRB . Out of these, two bank is selected to analyze investment pattern of commercial banks. The annual financial report is the population of the study. It is quite difficult to adopt the whole population in this study, sample of the 5 years financial statements are taken for the study.

- NIBL Bank Limited
- NABIL Bank Limited

3.4 Data Analysis Procedure

To achieve the objectives of the study, the collected data are categorized; tabulated, processed & analyzed using different financial tools like ratio analysis, growth ratio along with statistical tools like mean, standard deviation, coefficient of variation, Karl Pearson's coefficient of correlation, trend analysis are adopted in the study. Calculated results are tabulated under different headings according to the objectives and compare with each other & their significance carried out to interpret the result.

3.5 Data Analysis Tools

Data analysis refers to the analyzing the data in order to determine the inherent facts or meanings from the tabulated data, presentation & analysis of data is the care of the research work. Data that has been collected are first presented in systematic manner in tabular forms & then analyzed by applying different financial & statistical tools to achieve the objectives of the study. The tools applied in this study are as follows.

3.5.1 Financial Tools

Financial tools particularly for the analysis as well as the interpretation of financial data. These tools can be engaged to procure the precise knowledge of a business, which are fruitful for analyzing the strength and weakness of the investment policies and strategies. Thus, following financial tools are used to achieve the study goal.

Financial Ratios

A numerical or quantitative relationship between two items or variables of the financial statement is known as ratio analysis. In other words, two accounting figures expressed mathematically is termed as financial ratio. Ratio analysis is used to compare a firm's financial and status of that of other firms or to itself on time (Gitman;1988 :275). Since this study is particularly focused on portfolio analysis of commercial banks, only few ratios related to the investment of commercial banks are adapted in the study.

- 1 Total Investment to Total Deposit Ratio:-** Investment is one of the major credits generated to earn income. It implies the utilization of firm's deposit on investment in

government securities. This ratio is obtained by dividing total investment by total deposit as expressed below.

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

- 2 Loan and Advances to Total Deposit Ratio:** - This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better utilization of total deposits.

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

3.5.2 Statistical Tools

Statistical tools are used to analyze the relationship between two or more variables and to find how these variables are related. In this study, following statistical tools are used.

- 1. Arithmetic Mean or Average:** -The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by;

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$$\bar{X} = \text{Arithmetic Mean}$$

$$\sum X = \text{Sum of values of all items, and,}$$

$$N = \text{Number of items}$$

- 2. Standard Deviation:-** The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean.

Denoted by Greek letter's (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is calculated as;

$$\text{Standard deviation}(\sigma) = \sqrt{\frac{\sum(\mathbf{X} - \bar{\mathbf{x}})^2}{\mathbf{N}}}$$

Where,

σ	=	Standard deviation
$\sum(\mathbf{X} - \bar{\mathbf{x}})^2$	=	Sum of squares of the deviations measured from arithmetic average.
\mathbf{N}	=	Number of items

3. **Coefficient of Correlation:** - Correlation is a statistical tool design to measure the degree of association between two or more variables. In other word if the changes in one variable affects the changes in other variable, then the variable are said to be co-related when it is used to measure the relationship between two variables, then it is called simple correlation. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always lie between +1 and -1. The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

Where,

r	=	Correlation coefficient
$\sum x_1$	=	$X_1 - \bar{X}_1$
$\sum x_2$	=	$X_2 - \bar{X}_2$

Under this topic, Karl Pearson's correlation coefficient is used to measure the degree of relationship between the following variables.

- Coefficient of correlation between Total Deposit and Total Investment
- Coefficient of correlation between Total Investment and Net Profit.

The interpretation of calculated value of correlation coefficient by following way.

- If $r = 0$, then there is no correlation between variables.
- If $r > 0$, then there is positive correlation between variables.
- If $r < 0$, then there is negative relation between variables.
- If $r = +1$, then there is perfect positive correlation.
- If $r = -1$, then there is perfect negative correlation.

4. **Least Square Linear Trend Analysis:-** Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms. On the basis of tendencies in the dependent variables in the past periods, the future trend is predicted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variable are repeated in the future or the past events affect the future events significantly. The future trend is forecasted by using the following formula.

$$Y = a + bx$$

Where,

Y = the dependent variable

a = the origin i. e. arithmetic mean

b = the slope coefficient i. e. rate of change

X = the independent variable

5. **Assessment of the Sample Correlation Coefficient:** - For this study, t-test for significance of an observed and sample correlation coefficient is used.

Set up Hypothesis

Null hypothesis (H_0); $\rho = 0$ i.e. There is no correlation between the considered variables.

Alternative Hypothesis (H_1); $\rho \neq 0$ i.e. There is significant correlation between the considered variables.

Test statistic under H_0 ;

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Where,

r = Sample correlation between two variables

r^2 = Sample correlation Coefficient

n = No of Pair of observations

Level of significance: Level of significance $\alpha = 5\%$

Critical Value: Tabulated or critical value of t at α % level of significance for $(n - 2)$ degree of freedom obtain from 't' tables.

Decision: If calculated 't' is less than or equal to tabulated value of 't' it falls in the accepted region and the null hypothesis is accepted and if calculated 't' is greater than tabulated 't' null hypothesis is rejected.

CHAPTER- FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the analysis and interpretation of data according to the research methodology to attain of the study. During analysis, data gathered from various sources have been inserted in tabular form. Using financial and statistical tools the data have been analyzed and they are used to evaluate the investment policy of Nepalese commercial banks. With the help of analysis of ratio, and other statically tools has been analyzed and interpreted. So that, the strength and weakness of this organization and historical performance and present financial condition can be determined by this analysis. The financial tools included graphical presentation as well as trend analysis or regression analysis between some variables. The major variables like assets, liability, sales, debt, and equity are taken for the analysis. Moreover, the variables affecting to the financial performance is also considered in the study. The analysis is made through the data presentations and various financial tools reflecting the relationship among variables affecting investment pattern of commercial banks.

4.1 Analysis of Deposit and investment of sampled banks

Deposits are the main sources of resources to meet growing demands of financial existence. The existence of commercial banks basically depends upon the mobilization of deposits. It is important that commercial bank's deposit is the main sources of investment of the commercial banks. The growth of bank depends primarily upon the growth of its deposit and its proper utilization of the sector of investment. The commercial banks may function well when they have enough deposit. Higher the volume of deposit, higher will be the volume of lending and investment which again creates higher volume of profit.

Investments are made in assets. Assets generally are two types: real assets (Land, Building,Factories etc) and financial assets (Stock, Bonds, T-Bills etc). These two types of investment arenot competitive but complementary, highly developed institution for financial investment greatlyfacilitating real investment (Bhattari, 2005).

Table: 4.1

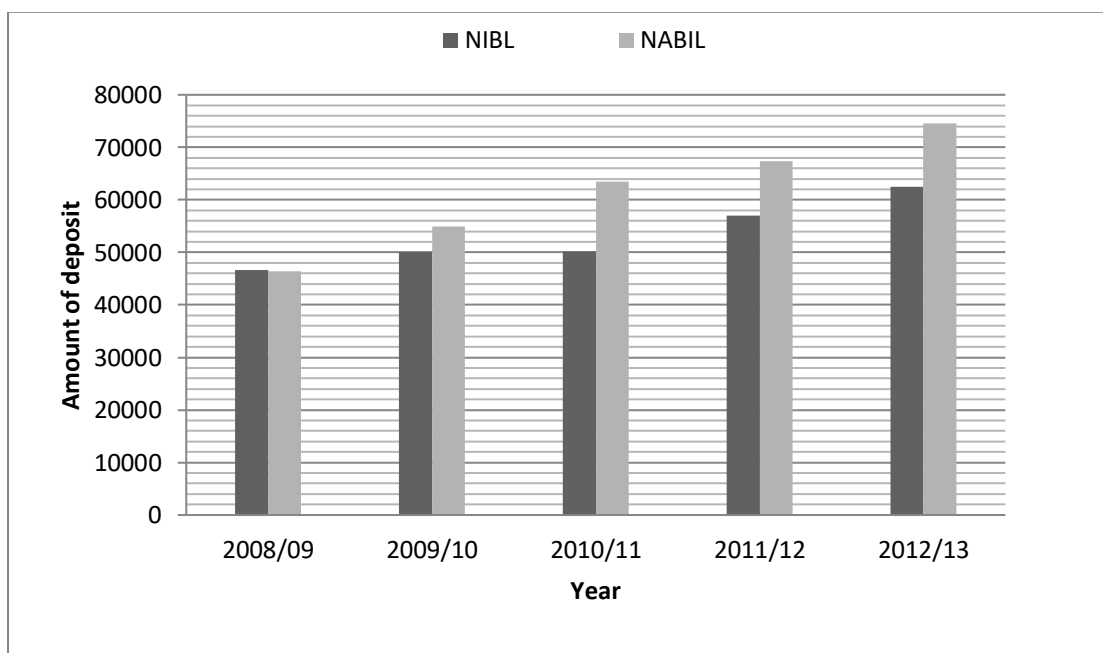
Deposit and investment position of NIBL & NABIL

Year	NIBL		NABIL	
	Total Deposit	Investment	Total Deposit	Investment
2008/09	46698.10	7399.81	46340.70	4275.53
2009/10	50094.72	8635.53	54905.68	6178.53
2010/11	50138.12	7423.11	63506.10	13081.21
2011/12	57010.60	10438.48	67325.36	14055.80
2012/13	62428.85	11434.95	74563.11	20071.4

Source: annual report of sampled banks

Figure: 4.1

Presentation of deposit position



Above Table and Figure shows the deposit and investment position of NIBL and NABIL. The total deposit of NIBL in 2008/09 is Rs.46698.10million in this period the deposit collection of NABIL is Rs 46340.70. above data shows the deposit and investment of sampled banks are increasing trend. Above figure trend also shows the deposit and investment of sampled banks are increasing trend.

4.2 Investment Pattern of NIBL

Investment usually means the sacrifice of the current money for future money. The sacrifice takes place in the present and the reward comes later, if at all, and the magnitude is generally uncertain. However, Shrestha (2003) describes investment as utilization of saving for something that is expected to produce profit or benefits. Investment is employment of funds to achieve added income or growth in value. It involves the commitment of resources put off from current consumption with hope of capitalizing some benefits in future. It includes both real asset and financial asset. Real asset investment denotes the tangible assets like building, land, machinery, factory and the like. On the other hand, financial asset investment indicates papers representing an indirect claim to real asset held by someone else. Nevertheless, real asset is less liquid than financial asset.

“Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.” (Gitman & Joehnk, 1998:263)

“Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involved in the future flow of the funds.” (Frank & Reilly; 1995:267)

The above definitions infer that an investment is the allocation and mobilization of funds for a certain time period to acquire some extra benefit or extra attachment with mobilized fund.

Table: 4.2

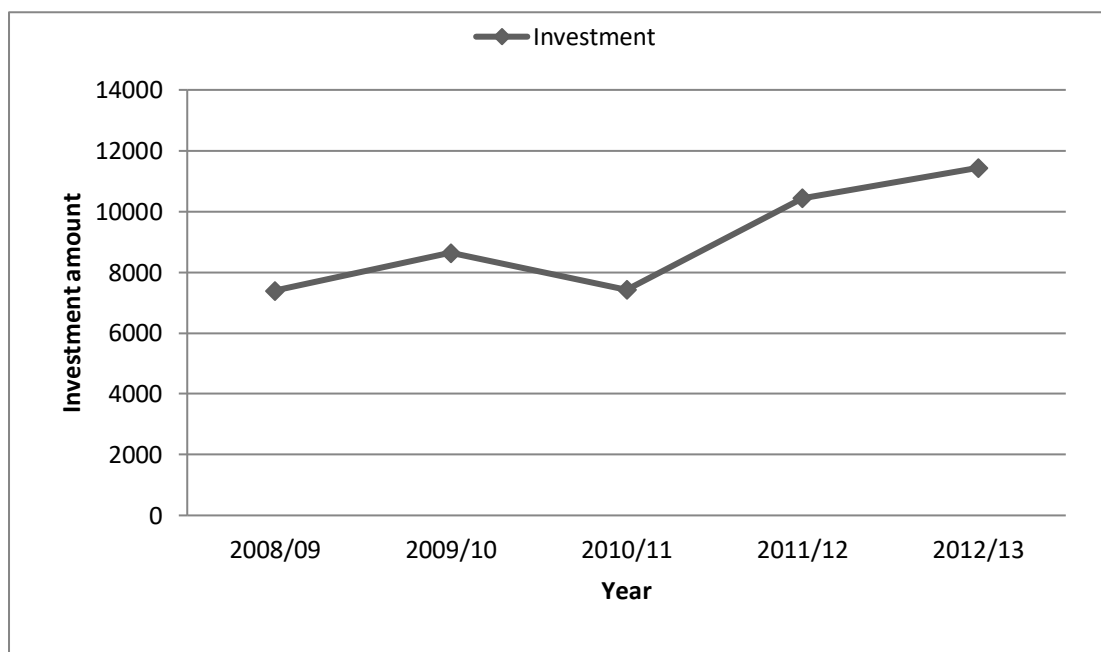
Investment Pattern of NIBL

Sector	2008/09	2009/10	2010/11	2011/12	2012/13
Nepal Govt. T-bills	2531.3	3911.85	3564.60	5282.96	5896.43
Nepal Govt. Saving Bonds	-	290.0	730.0	886.53	920.12
Local licensed Institutions	-	370.0	361.59	87.90	134.75
Foreign Banks	4807.54	4000.3	2695.95	4009.24	4299.67
Corporate Share	64.27	66.65	72.91	174.41	183.40
Corporate Debentures & Bonds	-	-	-	-	-
Total Investment	7403.11	8638.83	7425.06	10441.04	11438.37
Less: Provisions	3.3	3.3	1.95	2.55	3.42
Net Investments	7399.81	8635.53	7432.11	10438.49	11434.95

Source: annual report of NIBL 2009 to2013

Figure: 4.2

Trend Line of Investment of NIBL



From the above table shows the investment pattern of NIBL bank. NIBL bank invest his collection of deposit in different type i.e Nepal Government treasury bills, Nepal government other securities, foreign Bank, and corporate share. The NIBL invest the high amount in the Nepal govt. treasury bills. The investment trend in treasure bills is in fluctuating trend over the study period.

The second highest investment sector of NIBL is foreign banks, and Nepal government saving bonds. the amounted invested in foreign banks are Rs. 4807.54, 4000.3, 2695.95, 10441.04, 4299.67million respectively in each year. The trend of investment in foreign bank is in Fluctuating each year.

Table: 4.3

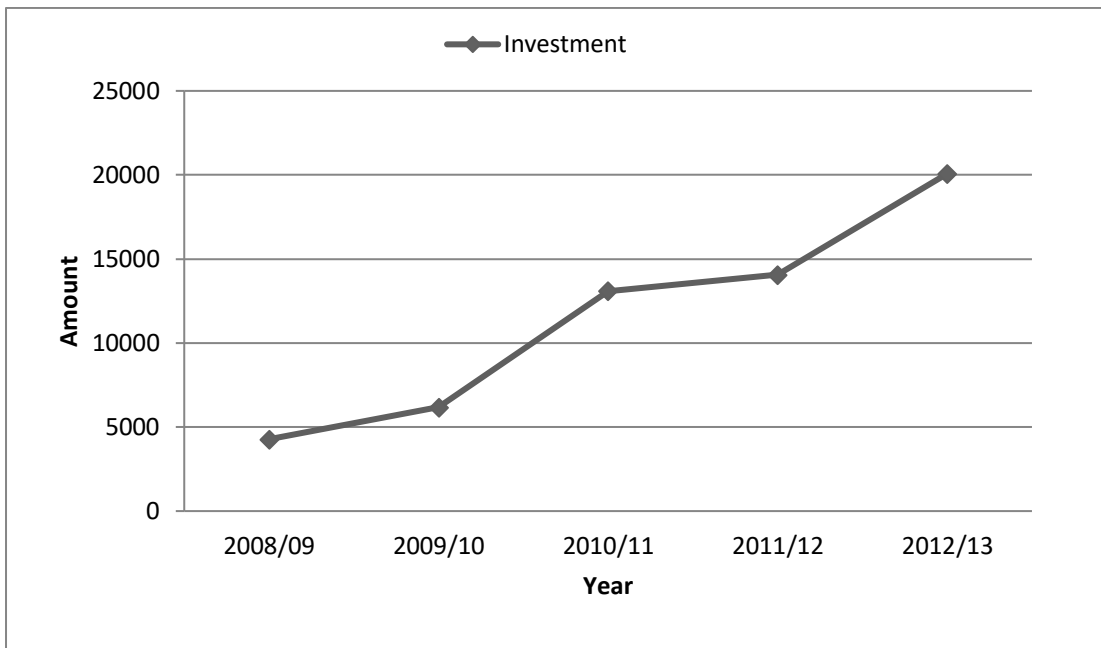
Investment Pattern of NABIL

Sector	2008/09	2009/10	2010/11	2011/12	2012/13
Nepal Govt. T-bills	664.63	1222.47	6489.95	4494.59	6687.12.
Nepal Govt. Saving Bonds	-	-	-	-	-
Nepal Govt. Other Securities	1753.80	1078.99	2255.28	3505.38	4978.09
Local licensed Institutions	22.50	65.70	305.35	1080.45	1542.8
Foreign Bonds	-	-	178.1	220.28	340.16
Foreign Banks	1391.68	3706.94	3661.74	4578.66	6276.20
Corporate Share	27.36	27.56	192.49	201.28	246.28
Corporate Debentures & Bonds	415.72	76.62	-	-	-
Other Investment	2.26	2.35	2.9	3.0	3.63
Total Investment	4277.95	6180.66	13085.77	14083.67	20074.1
Less: Provisions	2.43	2.13	4.6	2.8	2.61
Net Investments	4275.53	6178.53	13081.21	14055.8	20071.4

Source: annual report of NABIL 2009 to 2013

Figure: 4.3

Trend Line of Investment of NABIL



From the above table shows the investment pattern of NABIL bank. NABIL bank invest his collection of deposit in different type i.e Nepal Government treasury bills, Nepal government other securities, foreign Bank, and corporate share. The NABIL invest the high amount in the Nepal govt. treasury bills. The investment trend in treasure bills is in fluctuating trend over the study period.

The other main investment sector of NABIL bank is foreign banks, and Nepal government saving bonds. The trend of investment in foreign bank is in Fluctuating each year.

4.3 Analysis of Credit Position

4.3.1 Credit position of NIBL

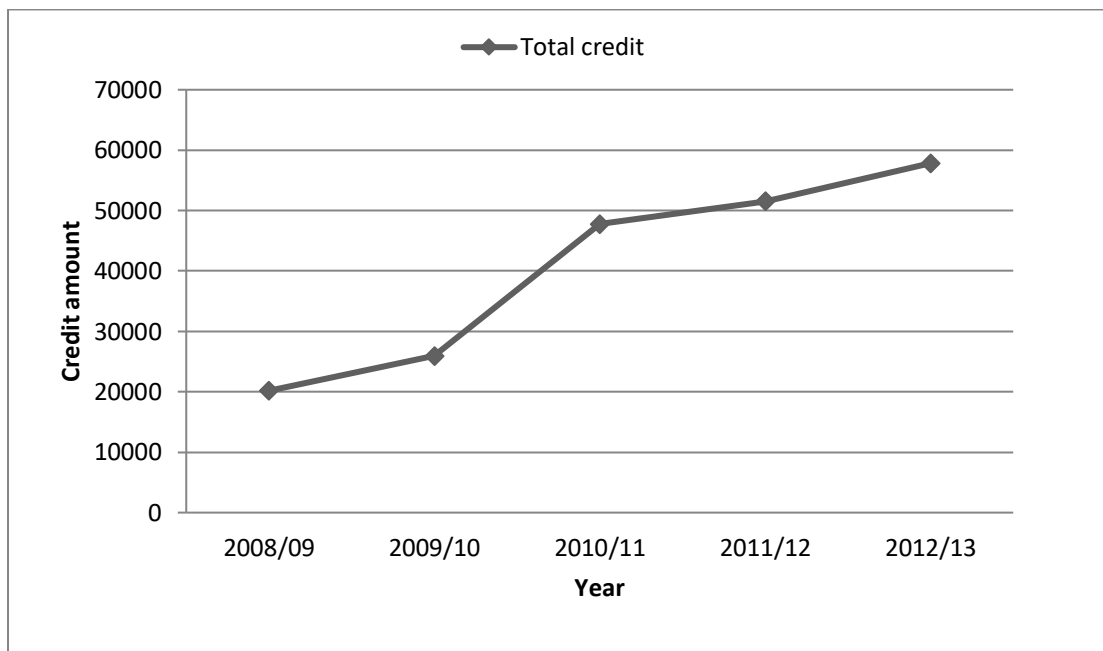
The total credit is the loan and advance and investment. Loan is the sum of the money that will be repay by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective is to increase future wealth. The general public gets attracted to take loan and advances from the bank if the interest rate is lower. The bank provides loan to the general public for different purposes like industry, trade, commerce etc

Table: 4.4
Credit Position of NIBL

Year	Loan & Advance (a)	Investment (b)	Total Credit (a+b)
2008/09	12776.21	7399.81	20176.02
2009/10	17286.43	8635.53	25921.96
2010/11	40318.31	7423.11	47741.42
2011/12	41095.51	10438.48	51533.99
2012/13	46400.05	11434.95	57835.0

Source: annual report of NIBL

Figure: 4.4
Trend Line of Credit of NIBL



The above table shows the overall credit position of NIBL. The components of total credit are loan and advance and investment, loan and advance is in increasing trend in hole five year. The investment is increasing except year 2010/11. And the overall position of total credit is increasing trend over the study period. Total credit is the sum of both two loan and advance and investment then the following two year total credit is increasing. From the above figure we conclude that the loan and advance, investment and the total of credit all are fluctuating trend.

4.3.2 Credit position of NABIL

The total credit is the loan and advance and investment. Loan is the sum of the money that will be repaid by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective is to increase future wealth. The general public gets attracted to take loan and advances from the bank if the interest rate is lower. The bank provides loan to the general public for different purposes like industry, trade, commerce etc.

Table: 4.5
Credit Position of NABIL

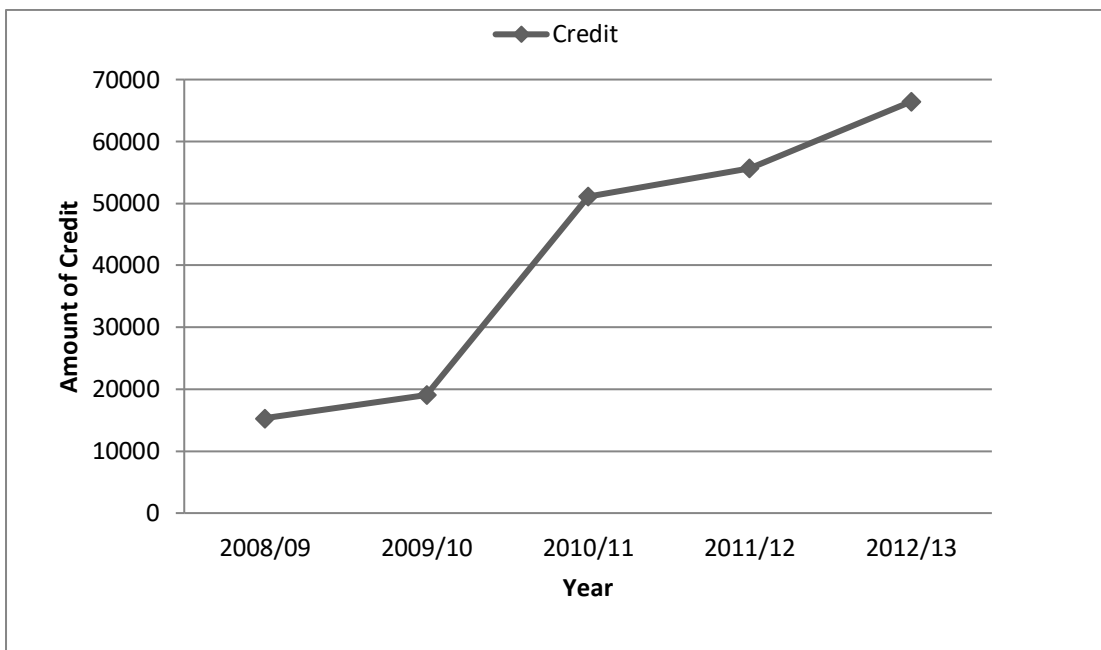
Year	Loan & Advance (a)	Investment (b)	Total Credit (a+b)
2008/09	11058.17	4275.53	15333.7
2009/10	12922.54	6178.53	19101.07
2010/11	38034.10	13081.21	51115.31
2011/12	41605.68	14055.80	55661.48
2012/13	46369.83	20071.4	66441.23

Source: annual report of NABIL

The above table shows the overall credit position of NABIL bank. The components of total credit are loan and advance and investment, loan and advance is in increasing trend in the five year. It is Rs 15333.7, 19101.07, 51115.31, 55661.48, and 66441.23 million. Total credit is the sum of both two loan and advance and investment.. From that the amount of total credit is slightly increasing trend. From the above figure we conclude that the loan and advance, investment and the total credit all are increasing trend.

Figure: 4.5

Trend Line of Credit of NABIL



4.4 Ratio Analysis

Financial statements reports both on firms position at a point in time and on its operations over some past period. However, the real value of financial statements lies in the fact that can be used to help predict future earnings and dividends. From an investor`s standpoint, predicting is what financial statement analysis is useful is all about, while from management`s standpoint, financial statement analysis is useful both to help anticipative future conditions and, more important, as a starting point for planning actions that will improve the firm`s future performance.

4.4.1 Credit Deposit Ratio

The total credit is the loan and advance and investment. Loan is the sum of themoney that will be repay by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective isto increase future wealth.

$$\text{Credit deposit ratio (CD Ratio)} = \frac{\text{TotalCredit}}{\text{TotalDeposit}}$$

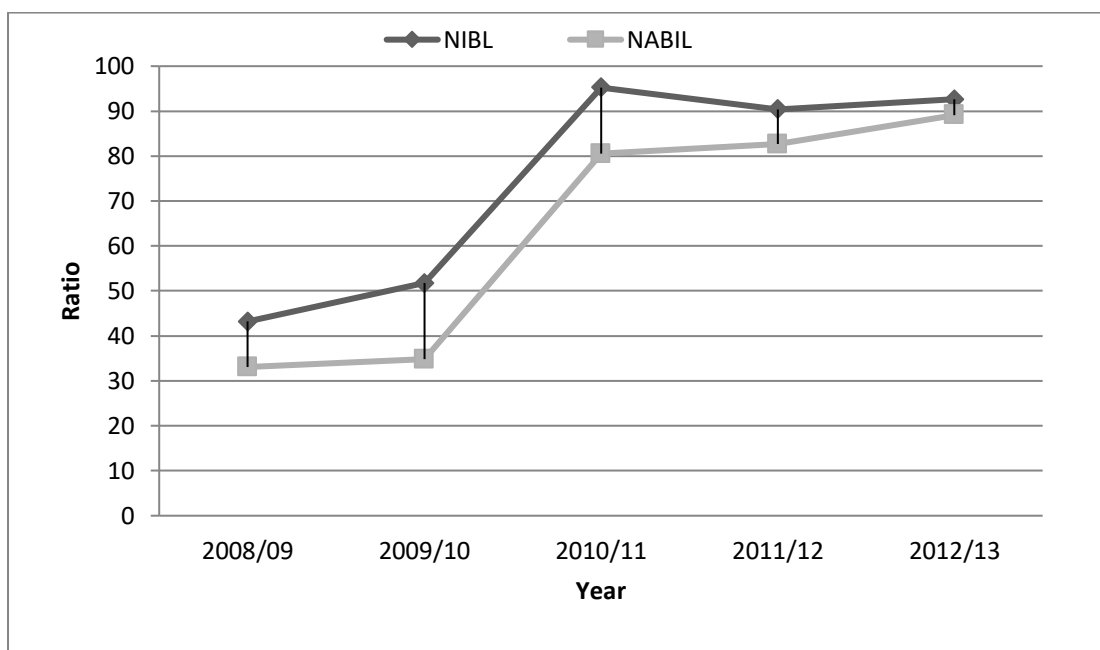
Table: 4.6
Computation of CD Ratio

Year	NIBL			NABIL		
	Total Credit	Total Deposit	Ratio %	Total Credit	Total Deposit	Ratio %
2008/09	20176.02	46698.10	43.21	15333.7	46340.70	33.08
2009/10	25921.96	50094.72	51.75	19101.07	54905.68	34.78
2010/11	47741.42	50138.12	95.22	51115.31	63506.10	80.48
2011/12	51533.99	57010.60	90.39	55661.48	67325.36	82.67
2012/13	57835.0	62428.85	92.64	66441.23	74563.11	89.10
Average			62.20			53.35

Source: annual report of sampled banks

Figure: 4.6

Trend Line of Credit Deposit Ratio



From above table, it can be said that there is a greater relationship between deposits and credit. Increase in deposits leads to increase in the loan and advance, but immense increase in the deposits leads to a little bit increase in loan and advance. The above analysis shows that more than 62.20% of the deposited amount has been succeeded to mobilize the resources. Its

satisfactory of the investment position of the NIBL bank. And the average ratio of NABIL is 53.35%. It shows that more than 53.35% of deposit is success to investment.

4.4.2 Loans and advances to Total deposit Ratio

Loan and advance consists of loans, advance, bills purchase and bills discounted. These are the major area of fund mobilization. The first part, Loans and Advances is more crucial and also bears more risk than Investments but also gives the higher return. Whereas, the second half, Investments has lesser risk and gives lower return in compare to Loans and Advances. Loans and Advances and Investment to Total deposit ratio indicate the firm's fund mobilizing power in gross. It is calculated by following formula:

$$\text{Loan and advanced to total deposit ratio} = \frac{\text{Loan and advances}}{\text{Total deposit}}$$

Table: 4.7

Loans and advances to Total deposit Ratio

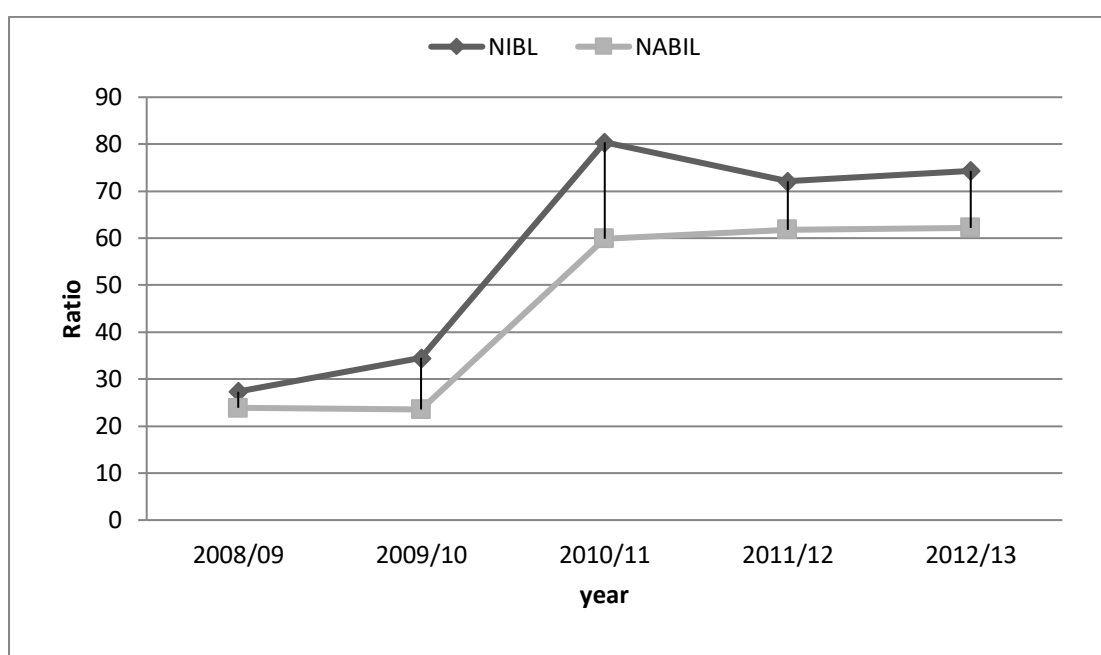
Year	NIBL			NABIL		
	Loan & Advances	Total Deposit	Ratio %	Loan & Advances	Total Deposit	Ratio %
2008/09	12776.21	46698.10	27.36	11058.17	46340.70	23.86
2009/10	17286.43	50094.72	34.51	12922.54	54905.68	23.54
2010/11	40318.31	50138.12	80.41	38034.10	63506.10	59.89
2011/12	41095.51	57010.60	72.08	41605.68	67325.36	61.80
2012/13	46400.05	62428.85	74.32	46369.83	74563.11	62.19

Source: annual report of sampled banks

From above table, describe the loan and advances and total deposit of sampled banks. The loan and advance of NIBL is increasing every year. The highest amount of loan and adv is Rs 46400.05 million. Same while the loan and adv of NABIL bank also increasing trend. It can be said that there is a greater relationship between deposits and loan and advances. Increase in deposits leads to increase in the loan and advance, but immense increase in the deposits leads to a little bit increase in loan and advance.

Figure: 4.7

Trend Line of loan & advance to deposit Ratio



4.4.3 Total deposit to investment Ratio

Investment to Total deposit ratio indicate the firm's fund mobilizing power in gross. It is in calculated by following formula:

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

Table: 4.8

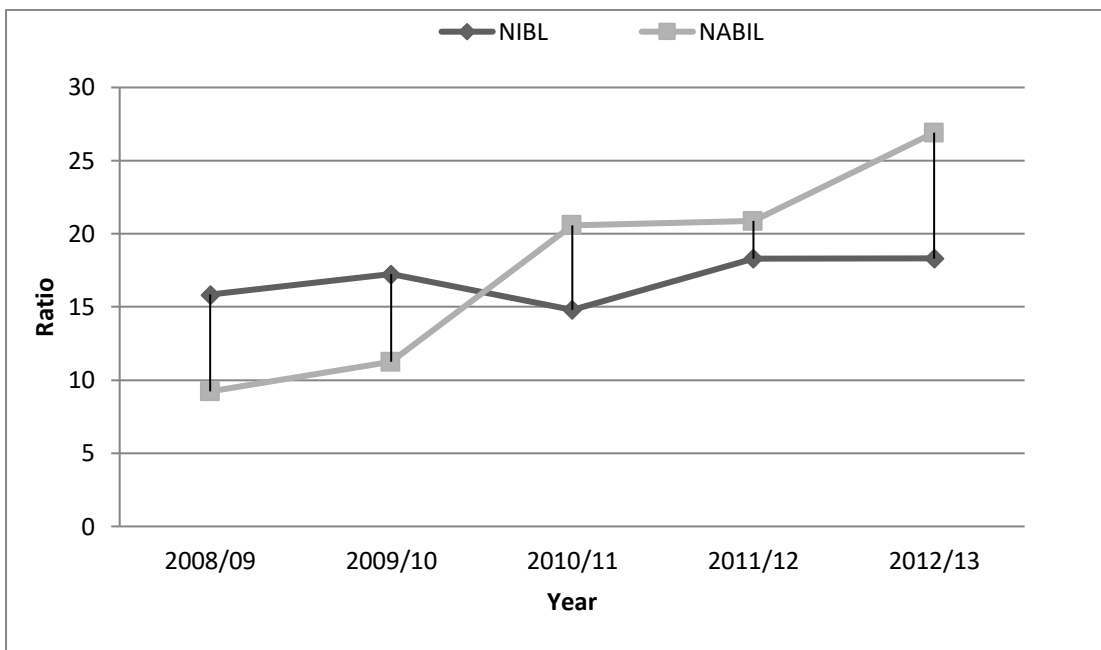
Deposit to investment Ratio

Year	NIBL			NABIL		
	Total Investment	Total Deposit	Ratio %	Total Investment	Total Deposit	Ratio %
2008/09	7399.81	46698.10	15.84	4275.53	46340.70	9.23
2009/10	8635.53	50094.72	17.23	6178.53	54905.68	11.25
2010/11	7423.11	50138.12	14.80	13081.21	63506.10	20.59
2011/12	10438.48	57010.60	18.31	14055.80	67325.36	20.87
2012/13	11434.95	62428.85	18.32	20071.4	74563.11	26.91

Source: annual report of sampled banks

Figure: 4.8

Trend Line of investment to deposit Ratio



From above table, shows the relationship between deposit and investment. Increase in deposits leads to increase in the investment.

4.4.4. Total deposit to Net profit ratio

Total deposit to net profit ratio indicate the firm's fund mobilizing power and its achievement of target profit. It is calculated by following formula:

$$\text{Net profit to total deposit ratio} = \frac{\text{net profit}}{\text{Total deposit}}$$

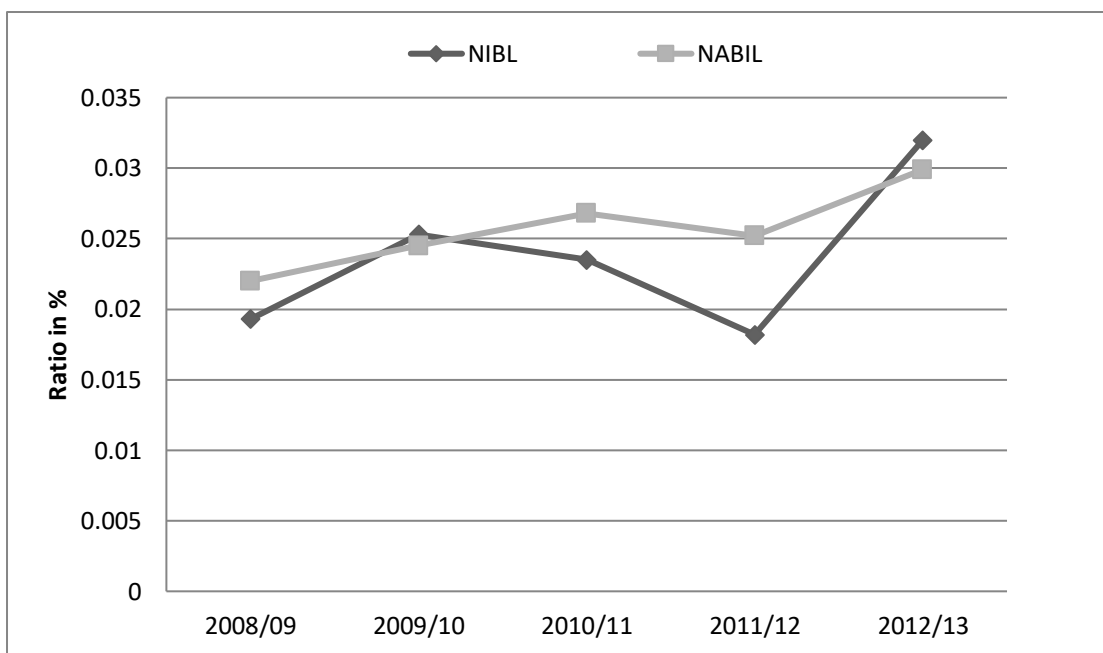
Table: 4.9
Deposit to Net profit Ratio

Year	NIBL			NABIL		
	Net Profit	Total Deposit	Ratio %	Net Profit	Total Deposit	Ratio %
2008/09	900.62	46698.10	0.0193	1021.62	46340.70	0.0220
2009/10	1265.95	50094.72	0.0253	1344.18	54905.68	0.0245
2010/11	1176.64	50138.12	0.0235	1700.38	63506.10	0.0268
2011/12	1039.28	57010.60	0.0182	1693.49	67325.36	0.0252
2012/13	1995.03	62428.85	0.0320	2226.68	74563.11	0.0299

Source: annual report of sampled banks

Figure: 4.9

Trend Line of deposit to net profit Ratio



4.4.5. Net profit to investment ratio

Total investment to net profit ratio indicate the firm's fund mobilizing power and its achievement of target profit. It is calculated by following formula:

$$\text{Net profit to investment ratio} = \frac{\text{net profit}}{\text{investment}}$$

Table: 4.10

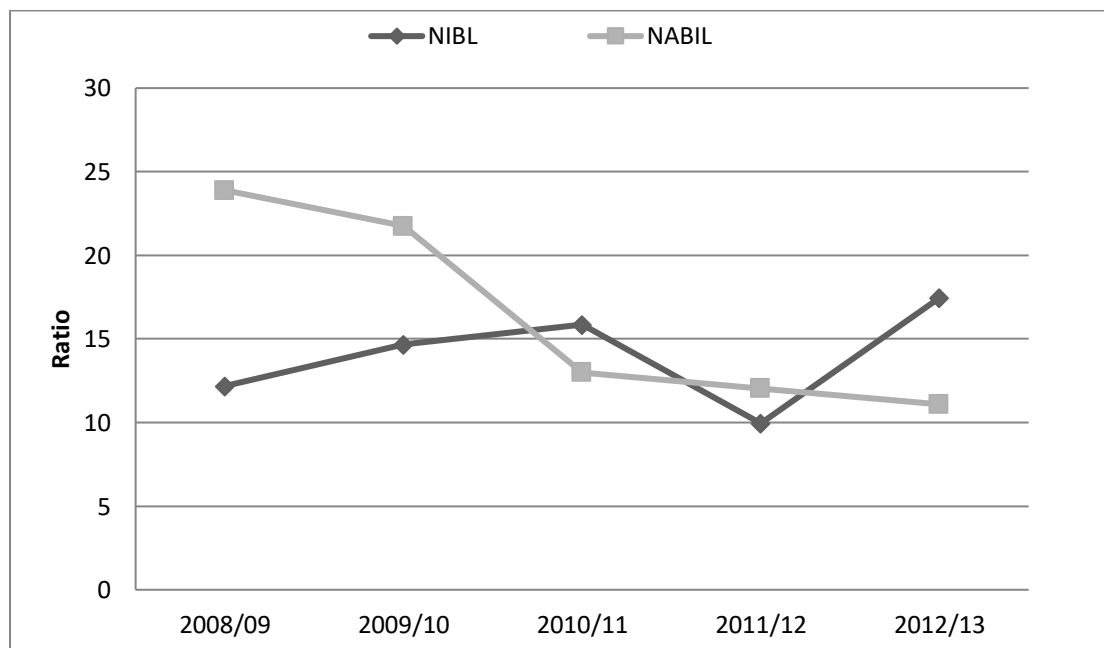
Investment to Net profit Ratio

Year	NIBL			NABIL		
	Net Profit	Total Investment	Ratio %	Net Profit	Total Investment	Ratio %
2008/09	900.62	7399.81	12.17	1021.62	4275.53	23.89
2009/10	1265.95	8635.53	14.66	1344.18	6178.53	21.75
2010/11	1176.64	7423.11	15.85	1700.38	13081.21	12.99
2011/12	1039.28	10438.48	9.95	1693.49	14055.80	12.04
2012/13	1995.03	11434.95	17.45	2226.68	20071.4	11.09

Source: annual report of sampled banks

Figure: 4.10

Trend Line of Investment to net profit Ratio



4.5 Correlation Analysis

To find out the correlation between two continuous variables, Karl Pearson's coefficient of correlation (r) is used. One of the very convenient and useful way of interpreting the value of coefficient of correlation (r) between the two variables is coefficient of determination, which is denoted by r^2 . It explains the total variation in dependent variable is explained by independent variable.

The significance of coefficient of correlation (r) is tested with the help of 't' test. If calculated 't' is less than or equal to tabulated value of 't' it falls in the accepted region and null hypothesis is accepted or 'r' is not significant, if calculated 't' is greater than tabulated 't' null hypothesis is rejected or 'r' is significant of correlation in the population.

4.5.1 Correlation between Deposit and Investment

Coefficient of correlation measures the degree of relationship between two variables, Total Deposit & Investment is independent variable (X_1) and P is dependent variable (X_2). The purpose of computing is to find out the relationship between Total deposit and investment is going to same direction or opposite direction.

Table: 4.11

Correlation between Deposit and investment

Name of the Company	Correlation (r)	r^2	t-Value		Result
			Calculated	Tabulated	
NIBL	0.9625	0.9265	4.43	2.201	Significant
NABIL	0.9802	0.9607	7.23	2.776	Significant

Source: Appendix

The above table describes the relationship between total deposit and investment of NIBL and NABIL Bank, during the period of the study the coefficient of correlation (r) between total deposit and investment of NIBL & NABIL is 0.9625 and 0.9802 respectively. This figure

shows the positive association between total deposit and investment. It means total deposit and investment both move towards same direction. The coefficient of determination (r^2) is 0.9267 & 9607. It shows that 92.65% and 96.07% of the variation in the dependent variable (i.e. deposit) is explained by the independent variable (i.e. investment). The calculated value of 't' is more than the tabulated value of 't' (i.e. $4.43 > 2.201$) therefore true value of 'r' is significant. It reveals that there is significant relationship between the total deposit and investment.

4.5.2 Correlation between loan & Adv and Investment

Coefficient of correlation measures the degree of relationship between two variables, loan & advances and deposit. Total deposit is independent variable (X_1) and loan and advances is independent variable (X_2). The purpose of computing is to find out the relationship between loan & advances and deposit.

Table: 4.12

Correlation between loan & Adv and Investment

Name of the Company	Correlation (r)	r^2	t-Value		Result
			Calculated	Tabulated	
NIBL	0.6396	0.4091	3.07	2.201	Significant
NABIL	0.9615	0.9245	8.82	2.776	Significant

Source: Appendix

The above table describes the relationship between loan and advances and Investment of NIBL and NABIL, during the period of the study the coefficient of correlation (r) is 0.6396 and 9615. This figure shows the positive relation between loan and advances and investment. It means loan and advances and investment both move towards same direction. The coefficient of determination (r^2) is 0.4091 and 0.9245, It shows that 40.91% and 92.45% of the variation in the dependent variable (i.e. loan) is explained by the independent variable (i.e. investment). The calculated value of 't' is more than the tabulated value of 't' (i.e. $3.07 >$

2.201) therefore true value of 'r' is significant. It reveals that there is significant relationship between the loan and advances and investment.

4.5.3 Correlation between Investment and net profit

Coefficient of correlation measures the degree of relationship between two variables, investment and net profit. Investment is independent variable (X_1) and net profit is dependent variable (X_2). The purpose of computing is to find out the relationship investment and net profit.

Table: 4.13

Correlation between Investment and net profit

Name of the Company	Correlation (r)	r^2	t-Value		Result
			Calculated	Tabulated	
NIBL	0.7036	0.4951	4.32	2.201	Significant
NABIL	0.9833	0.9669	7.36	2.776	Significant

Source: Appendix

The above table describes the relationship between investment and net profit of NIBL and NABIL, during the period of the study the coefficient of correlation (r) is 0.7036 and 0.9833. This figure shows the positive relation between investment and net profit. It means investment and net profit both move towards same direction. The coefficient of determination (r^2) is 0.4951 and 0.9669, It shows that 49.51% and 96.69% of the variation in the dependent variable (i.e. investment) is explained by the independent variable (i.e. investment).

4.6 Trend Analysis

Trend Analysis is one of the statistical tools which is used to determine the improvement or deterioration of its financial situation. Trend analysis informs about the expected future values of various variables. The Least square method has been adopted to measure the trend behaviors of these selected Banks. This method is widely used in practices. The formula of least square method for the straight line is represented by the following formula.

$$Y_c = a + bX$$

Where,

Y_c = Trend Values

a = Y intercept or the computed trend figure of the Y variable, when $X = 0$

b = Slope of the trend line of the amount of change in Y variable that is associated with change in 1 unit in X variable.

X = Variable that represent time i.e. time variable

The value of the constants a and b can be determined by solving the following two normal equations.

$$\sum Y = Na + b \sum X \dots\dots\dots(i)$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots(ii)$$

Where, N = number of years

But for simplification, if the time variable is measured as a deviation form its mean i.e. mid-point is taken as the origin, the negative value in the first half of the series balance out the positive values in the second half so that ($\sum X = 0$).

The values of constant a and b can easily be determined by using following formula.

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

4.6.1 Trend Analysis of investment of NIBL

Under this topic, an effort has been made to calculate the trend value of investment of sample banks with comparatively under nine years study period and project the trend for next five years. The following table describes the trend values of investment of sampled banks for five years.

Table: 4.14
Trend Value of investment Amount
(Rs. In Millions)

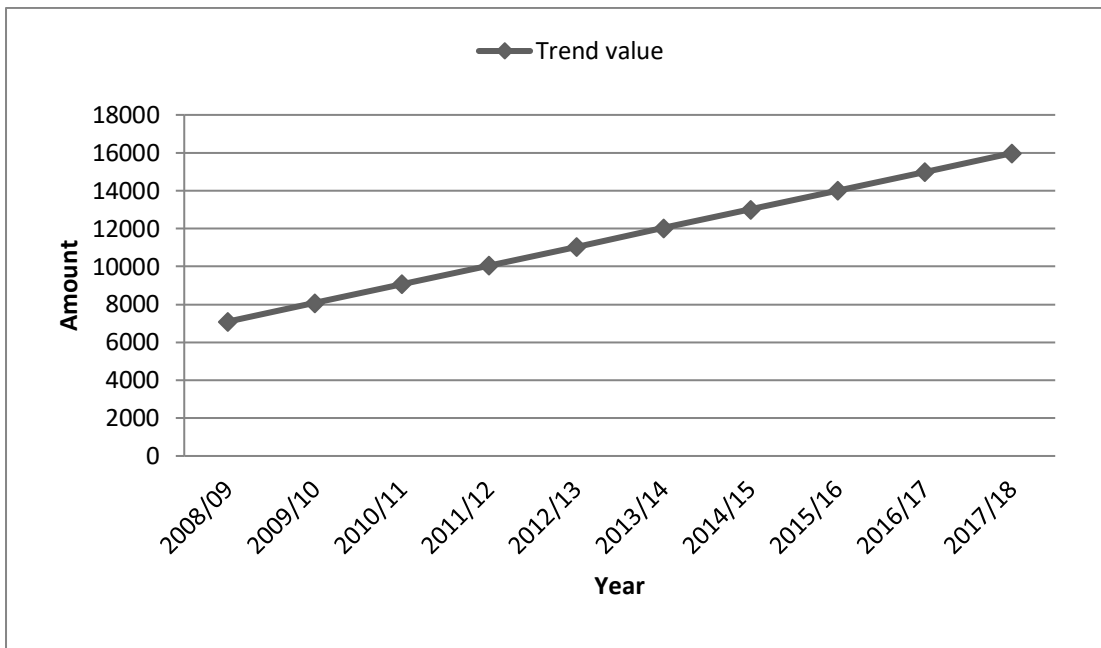
Fiscal year	Actual value	Trend value
2008/09	7399.81	7091.74
2009/10	8635.53	8079.06
2010/11	7423.11	9066.38
2011/12	10438.48	10053.70
2012/13	11434.95	11041.02
2013/14	-	12028.34
2014/15	-	13015.66
2015/16	-	14002.98
2016/17	-	14990.30
2017/18	-	15977.62
Mean (a)	9066.38	
Rate of Change (b)	987.32	
Trend Line (y)	$Y = 9066.38 + 987.32X$	

Source: Appendix

The above table 4.13 shows that the trend line of investment of NIBL is increasing trend. 'Y' has shown the trend value of Investment. Since, the calculated value of 'b' is positive of all sample banks; it is found that the bank's is increasing with time. Comparatively the slope of equation of NIBL is high and its trend line is sloping upward rapidly. From above table trend value of deposit of sampled banks trend line shown in the following graphical table. It shows that the trend line of NIBL is move upward than.

Figure: 4.11

Trend line of investment of NIBL



4.6.2 Trend Analysis of investment of NABIL

Under this topic, an effort has been made to calculate the trend value of investment of sample banks with comparatively under nine years study period and project the trend for next five years. The following table describes the trend values of investment of sampled banks for five years.

Table: 4.15

Trend Value of investment Amount

(Rs. In Millions)

Fiscal year	Actual value	Trend value
2008/09	4275.53	3638.69
2009/10	6178.53	7585.59
2010/11	13081.21	11532.49
2011/12	14055.80	15479.39
2012/13	20071.4	19426.29
2013/14	-	23373.19

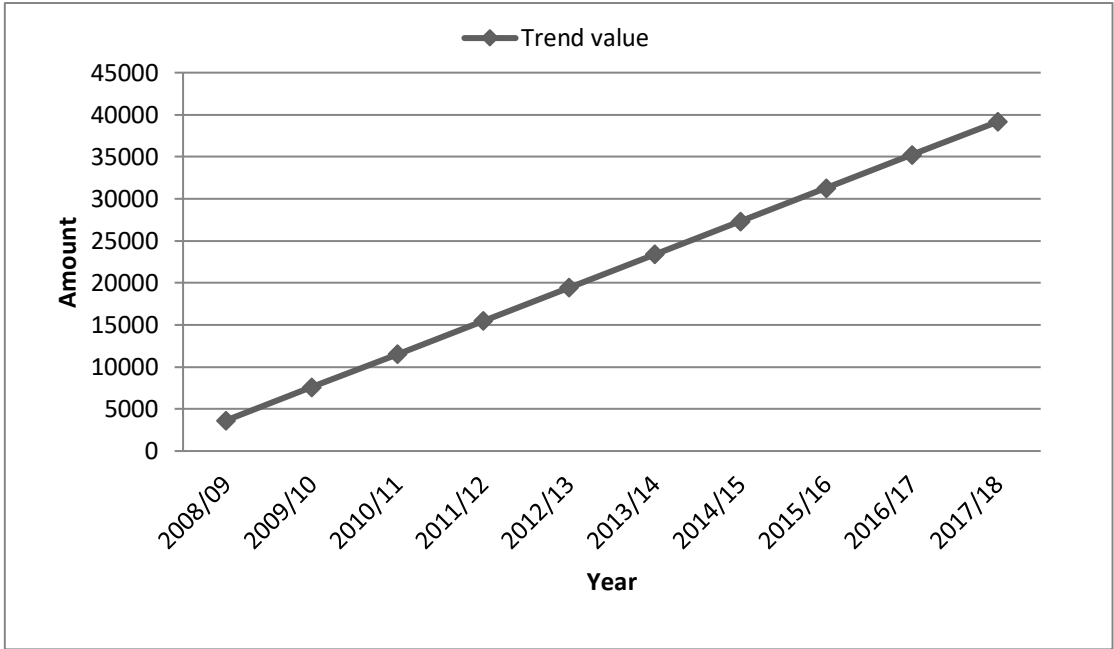
2014/15	-	27320.1
2015/16	-	31266.9
2016/17	-	35213.89
2017/18	-	39160.79
Mean (a)	11532.49	
Rate of Change (b)	3946.9	
Trend Line (y)	$Y = 11532.49 + 3946.9X$	

Source: Appendix

The above table 4.15 shows that the trend line of investment is increasing trend. ‘Y’ has shown the trend value of investment. Since, the calculated value of ‘b’ is positive of all sample banks; it is found that the bank’s investment is increasing with time. From above mentioned table trend value investment of sampled banks trend line shown in the following graphical table. It shows that the trend line of NABIL is move upward than.

Figure: 4.12

Trend line of investment of NABIL



4.7 Major findings of the study

- Above Table and Figure shows the deposit and investment position of NIBL and NABIL. The total deposit of NIBL in 2008/09 is Rs. 46698.10 million in this period the deposit collection of NABIL is Rs 46340.70. above data shows the deposit and investment of sampled banks are increasing trend. Above figure trend also shows the deposit and investment of sampled banks are increasing trend.
- From the above table shows the investment pattern of NIBL bank. NIBL bank invest his collection of deposit in different type i.e Nepal Government treasury bills, Nepal government other securities, foreign Bank, and corporate share. The NIBL invest the high amount in the Nepal govt. treasury bills. The investment trend in treasure bills is in fluctuating trend over the study period.
- The second highest investment sector of NIBL is foreign banks, and Nepal government saving bonds. the amounted invested in foreign banks are Rs. 4807.54, 4000.3, 2695.95, 10441.04, 4299.67million respectively in each year. The trend of investment in foreign bank is in Fluctuating each year.
- From the above table shows the investment pattern of NABIL bank. NABIL bank invest his collection of deposit in different type i.e Nepal Government treasury bills, Nepal government other securities, foreign Bank, and corporate share. The NABIL invest the high amount in the Nepal govt. treasury bills. The investment trend in treasure bills is in fluctuating trend over the study period.
- The other main investment sector of NABIL bank is foreign banks, and Nepal government saving bonds. The trend of investment in foreign bank is in Fluctuating each year.
- The above table shows the overall credit position of NIBL. The components of total credit are loan and advance and investment, loan and advance is in increasing trend in hole five year. The investment is increasing except year 2010/11. And the overall position of total credit is increasing trend over the study period. Total credit is the sum of both two loan and advance and investment then the following two year total credit is increasing. From the above figure we conclude that the loan and advance, investment and the total of credit all are fluctuating trend.
- The above table shows the overall credit position of NABIL bank. The components of total credit are loan and advance and investment, loan and advance is in increasing

trend in the five year. It is Rs 15333.7, 19101.07, 51115.31, 55661.48, and 66441.23 million. Total credit is the sum of both loan and advance and investment. From the amount of total credit is slightly increase trend. From the above figure we conclude that the loan and advance, investment and the total credit all are increasing trend.

- From above table, it can be said that there is a greater relationship between deposits and credit. Increase in deposits leads to increase in the loan and advance, but immense increase in the deposits leads to a little bit increase in loan and advance. The above analysis shows that more than 62.20% of the deposited amount has been succeeded to mobilize the resources. Its satisfactory of the investment position of the NIBL bank. And the average ratio of NABIL is 53.35%. It shows that more than 53.35% of deposit is succeeded to investment.
- From above table, describe the loan and advances and total deposit of sampled banks. The loan and advance of NIBL is increasing every year. The highest amount of loan and adv is Rs 46400.05 million. Same while the loan and adv of NABIL bank also increasing trend. It can be said that there is a greater relationship between deposits and loan and advances. Increase in deposits leads to increase in the loan and advance, but immense increase in the deposits leads to a little bit increase in loan and advance.
- From the above table analysis that the growth ratio of deposit of NIBL is only 7.59% under the period of study the growth ratio of investment is 11.94%. It shows that the bank is utilizing the collected deposit as per the growth of total deposit. So, it can be concluded that the bank seems in better condition to increase the growth ratio of investment.
- From the above table analysis, it is found that the growth ratio of total deposit and investment of NABIL during the period of study is 11.4%. The growth ratio of investment is 15.26% under the period of study which is better in compared to the growth ratio of investment i.e. 15.26%. It shows that the bank is utilizing the collected deposit as per the growth of investment. So, it can be concluded that the bank seems in better condition to increase the growth ratio of investment.
- The above table describes the relationship between total deposit and investment of NIBL and NABIL Bank, during the period of the study the coefficient of correlation (r) between total deposit and investment of NIBL & NABIL is 0.9625 and 0.9802 respectively. This figure shows the positive association between total deposit and

investment. It means total deposit and investment both move towards same direction. The coefficient of determination (r^2) is 0.9267 & 9607. It shows that 92.65% and 96.07% of the variation in the dependent variable (i.e. deposit) is explained by the independent variable (i.e. investment). The calculated value of 't' is more than the tabulated value of 't' (i.e. $4.43 > 2.201$) therefore true value of 'r' is significant. It reveals that there is significant relationship between the total deposit and investment.

- The above table describes the relationship between loan and advances and Investment of NIBL and NABIL, during the period of the study the coefficient of correlation (r) is 0.6396 and 9615. This figure shows the positive relation between loan and advances and investment. It means loan and advances and investment both move towards same direction. The coefficient of determination (r^2) is 0.4091 and 0.9245, It shows that 40.91% and 92.45% of the variation in the dependent variable (i.e. loan) is explained by the independent variable (i.e. investment). The calculated value of 't' is more than the tabulated value of 't' (i.e. $3.07 > 2.201$) therefore true value of 'r' is significant. It reveals that there is significant relationship between the loan and advances and investment.
- The above table 4.13 shows that the trend line of investment of NIBL is increasing trend. 'Y' has shown the trend value of Investment. Since, the calculated value of 'b' is positive of all sample banks; it is found that the bank's is increasing with time. Comparatively the slope of equation of NIBL is high and its trend line is sloping upward rapidly. From above table trend value of deposit of sampled banks trend line shown in the following graphical table. It shows that the trend line of NIBL is move upward than.
- The above table 4.14 shows that the trend line of investment is increasing trend. 'Y' has shown the trend value of investment. Since, the calculated value of 'b' is positive of all sample banks; it is found that the bank's investment is increasing with time. From above mentioned table trend value investment of sampled banks trend line shown in the following graphical table. It shows that the trend line of NABIL is move upward than.

CHAPTER – FIVE

SUMMARY, CONCLUSION & RECOMMENDATION

In this chapter, summary and conclusion of the research as well as recommendations are presented separately. After summarizing and concluding the research, recommendations are suggested for the effective deposit mobilization of Nepalese Commercial Banks. The researcher has tried to give suggestions and recommendations to the commercial banks based on this research.

5.1 Summary

The problem of economic development of a developing country is a problem of real growth. Only considering real factor can't solve this problem, because, nowadays financial and monitoring factors have a tremendous effect on the growth process. For the development of the country's economy, sound and co-ordinate fiscal and monetary policy plays an important role even in underdeveloped country like Nepal. For this, the role of commercial banks becomes crucial in the task of capital formation, which is, no doubt, a key variable in the economic development of a country. Scattered resources hold no meaning unless and until they are mobilized and utilized efficiently in some productive sectors.

Investment policy analysis is one of the key tools for financial decision and assist in making plan before using sophisticated forecasting and budgeting procedure. The value of this approach is the quantitative relation, which can be used to diagnose strengths and weakness in a bank performance. Such analysis is considerable things for the bank's common stock holders, investors, bondholders and others. The objective of the study is to find out the trend of deposit, investment, loan & advance and net profit of sample banks with in five year study period, to access the investment portfolio of sample banks, to find out relationship between total investments, deposit, loan & advance and net profit of sample banks and to analyze the utilization of available fund of sample banks.

5.2 Conclusion

It can be concluded from the observance and analysis of above data the sample banks should move as per the direction given by the central bank. Banks should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial banks to live in the industry. Higher the deposit higher will be the chance of the mobilization of working fund and profit there too. Bank should invest in different sector very carefully, while advancing loan because loan is the blood of commercial banks for survival. If commercial banks do not apply sound investment policy it will be in great trouble in future to collect it in time. Hence the possibility of bankruptcy there too. Bank should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations, there is high chance of default risk. Diversifications are indeed need to all the business houses but it has seen immense importance to commercial banks. Diversification of investment is very much important to commercial bank than other business houses because banks use the money to other people for the benefit of its own. And lastly it can be said that banks are important for the nation. It helps in the capital formation to the nations, which is the most important element for the economic growth of the country.

In conclusion, it can be said that central banks are required to direct the commercial banks. Commercial banks should move as per the direction given by the central bank. Banks should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial bank to live in the industry. Higher the deposit Higher will be the chance of mobilization of working fund and profit thereto. Banks should not invest their fund haphazardly. It should be careful while advancing loan because loan is the blood of the commercial banks for survival. If commercial banks does not apply sound investment policy it will be in great trouble in future to collect it in time, hence the possibility of bankruptcy thereto. Banks should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations there is a high chance of default risk. Diversification is needed to all the business houses but it has seen immense importance to commercial banks hence, the commercial banks should implement the investment policy considering the directives issued by NRB. Commercial banks should not cross the boundary level set by central bank to make investment policy. In

overall, it can be concluded that the role of NRB in investment policy of commercial bank has both positive and negative impacts.

Under this research study, different financial and statistical tools are used to measure the investment policy of the selected banks. It is found that both selected banks have strong financial performance but comparatively NABIL is in better position among the Despite of social contribution HBL has higher profit earnings. It is concluded that sampled bank.

5.3 Recommendation

- Suggestions are the output of the whole study. It helps to take corrective action in the activities in future. Different analyses are done to arrive at this step. On the basis of above analysis and findings of the study following suggestions and recommendations may be referred to overcome weakness, inefficiency to investment policy and for corrective action for the concern authorities and other researchers.
- Diversification of investment is highly suggested to the selected bank as they have given priority to invest in government securities only. Both of the banks seem risk avoider as they have invested highest amount in risk free securities. Higher the risk Higher will be the profit. Hence, sample banks are recommended to diversify their investment in NRB bond, govt. non-financial institution, other non-financial institution etc.
- To be a successful banker a bank must utilize depositor's money as loan and advances. Loan and advances is the largest item of the bank in the asset side of balance sheet, which is risky and more profitable too.
- Total investment made by the selected bank is in fluctuating trend. So both bank must seek new places or sectors for investment, with potentiality of high return and low risk and should make rational investment.
- The banks should find out new areas/sectors for investing collected deposits from which it can generate maximum profit. In context of present scenario of the country, health and education can be considered as the best sector for investment, which are more secure and can generate a reasonable profit.

- Majority of commercial banks have been found to be profit oriented ignoring their socialresponsibility, which is not a proper strategy to sustain in long run. So all the banks aresuggested to render their serves even in the rural areas providing special loans to thedeprived and priority sectors, which might further intensify the goodwill of the banks infuture.

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