

CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

Nepal which is surrounded by China to the north and India to the south is one of the least developed countries in the world. Nepalese economy is underdeveloped compared to the huge and rapidly progressive economics of two neighbors. But Nepal is online developing country in the world and slowly has also increasing the trend of the economic condition. The developing of a country is always measured by its economic indicators. Therefore every country gives emphasis on uplift of its economy. Now days the financial institution are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. Every well-organized financial institution including financial intermediaries play pivotal role in the development and advancement of the financial sectors of the country. They collect scattered financial resources from the mass and invest them among the people for various economic activities in the country. This will provide fuel to the development process. The economic activities of the country assistance of the financial institution. They are actually indispensable part of the development process. It is the fact that the unorganized financial system leads the country nowhere. Therefore the central bank (Nepal Rastra Bank) continuous to play major role in development and advancement of the financial sectors of the country.

Bank is the most important financial institution, which is engaged in monetary transactions. It is an institution, which deals with money by accepting various types of deposit from the depositors under various deposit schemes there by allowing interest on them also rendering loans on mortgage to deficit unit for productive use by charging interest. Bank accepts various kinds of deposit from the public, which are repayable on demand or on the short notice. Thus, it helps in mobilization of cash from saver groups to user groups.

Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. Indeed making loans is the principal economic function of banks to fund consumption and investment spending by businesses, individual, and units of government. How well a bank performs its lending function has a great deal to do with economic health of its region, because bank loans support the growth of new business and jobs within the bank's trade territory and promote economic vitality. Moreover, bank loans often seem to convey positive information to the market place about a borrower's credit quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds from other sources.

For most banks, loan accounts to half or more of their total assets and about half to two thirds of their revenues. (Banking and Financial Statistic, 2066 :) Moreover, risk in banking tends to be concentrated in the loan portfolio. When a bank gets into serious trouble, its problems usually springs from loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policies, or an unexpected economic downturn. A detailed analysis of the documentation and collateral for the largest loan, a review of a sample of small loans and an evaluation of the bank's loan policy should be properly monitored to ensure that it is sound and prudent in order to protect the public's funds. Thus it becomes necessary that the funds of the bank, which has been granted as loans, into various sectors be thoroughly inspected to guarantee the protection of the bank against unforeseen risks.

In the present context, the role of money in the economy has become very important. Proper and well-planned management of money – directs, determines and enhances the health and productivity of total financial sector and performance of financial sector affects the growth of the economy. Bank collects, disperses and controls the flow of money. Banks collect the funds from public who has savings and it disperses the fund to the people who are in need of it. This way, whole infrastructure of national development, direction of economy, rate of progress and

even the habit of people is being the function of the banking system. Therefore, the existence of bank is for the change in every aspect of human beings and its presence is for the enrichment of the people.

The issue of development always rests upon the mobilization of resources. Bank's function of lending ensures required volume of capital to resources mobilization. Thus, the foundation of resources mobilization is pillared on the bank's function of lending. The primary issue of economic development is to increase the investment in productive sector. The increase in investment affects positively in every sector of economy such as employment, production, income, government revenue, international trade etc. What roles can a bank play to assist the economic development is the main issue that the banking sector in Nepal and sectors around the world is facing today. The liberalization of economy has posed more responsibility and challenges to commercial banks. This has created new areas of probabilities and posed high degree of competition risks. The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to increase the pace of development .The liberalization of financial sector in Nepal has opened a new horizon of expectancy in banking industry.

The Banking business has its genesis from its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions, such as merchant banking, credit card business, documentary credit, traveler check business etc. Nevertheless, the importance of lending in banking business is undoubtedly unchanged and remained vital as it was in early day of this business. The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What have been changed are the institutional structure, the instruments, and the techniques used in performing these functions.

Lending is not only the most important function of a bank; it also determines the future of banking institutions. The quality of loan, quality of borrower and quality

of securities determines the health of any bank. The efficiency of bank lies in how it multiplies the deposits of depositors. Hence, lending should be accompanied by some basic principle and practices. Lending policy is a study in determining the importance of the bank's lending policy towards National economic development because it ensures efficient allocation of funds to achieve the material and economic well-being of the society as a whole.

1.1.1 History of Banks in Nepal:

Talking about the history of bank, an institutional banking system came into existence in Nepal only in the 19th century. Nepal Bank Limited was the first financial institution of Nepal established on the 30th of Kartik 1994. Being a commercial bank, it focuses on income generating and profit maximization. As it was only one commercial bank has to look the economic condition of country. Only one Nepal Bank Limited was not sufficient to look all the sector of country. So in 2013 B.S. another bank named “Nepal Rastra Bank” was established as the central bank. Similarly the 2nd commercial bank Rastriya Banijya Bank was established as the second commercial bank of Nepal in Magh 10, 2022 B.S., under Rastriya Banijya Bank Act 2021. This act is now revised as Commercial Bank Act 2031. B.S. “Accepting deposits, granting loan and performing commercial banking functions are the main motto of commercial bank” (Commercial Bank Act, 2031). For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation Act 2016. For the development of agricultural section, Agricultural Development Bank was established on Magh 7th 2024 B.S., under the Agricultural Bank Act 2024 B.S.

The government of Nepal observed the necessities of rapid development of the country for which it has adopted “liberalized economic policy, laissez faire economy and encouraged foreign investment”. “The government formed Foreign Investment & Technology Act 1981 A.D. which was later revised as Act 1992 A.D. by new elected democratic government”(Foreign Investment and

Technology Act ,1992). The joint venture bank was introduced in Nepal in 2041 B.S. with the establishment of “Nepal Arab Bank Limited”. It was established with joint venture of U.A.E bank, financial institution of Nepal.

The second joint venture bank, Nepal Indosuez Bank Limited was established in 6th Magh 2042 B.S. Similarly, others joint venture banks like, Nepal Grindlays Bank Limited on 16th Marg 2043, Himalayan Bank Limited on 2049 B.S., Nepal State Bank of India Limited on 2050 B.S., Nepal Bangladesh Bank Limited on 2051 B.S., Everest Bank Limited on 2051 B.S., Bank of Kathmandu on 2052 B.S. and Nepal Bank of Ceylon Limited on 2052 B.S. have been established. Till now other commercial banks have been also established.

Among them majority of banks are established in joint venture banks. ‘A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation industrial or commercial investment, production or trade.’ (*Gupta, 1984: 15*)

Joint venture banks play an important role for economic development of nation. They have been adopted new banking technique, management like, hypothecation, syndication lending policies, tale banking credit card, master card from international banking technique. They render various services to their customers in order to facilitate their economic and social life. Joint venture banks are operating in Nepal in an act as commercial banks are operating and performing their work under the direction of Nepal Rastra Bank. Nowadays, there are many joint venture banks and other financial institutions, but there are little opportunities to make fair investment. Meanwhile, the banks and financial institutions are offering very low deposit and credit interest rate. So to survive in the competitive banking market, one should follow the fundamental principles of sound investment policy with minimum risk and maximum profit.

However, the joint venture banks are operating in Nepal and play important role in the economic development of the country.

1.1.2 Investment Policy:

Investment policy is a study in determining the importance of the bank's investment policy towards National Economic Development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regards loan disbursement pattern has been a major catalyst in achieving priority of industries in the context of Nepal's economic development.

All Commercial Banks in Nepal have their own investment policy apart from government policy and Central Bank's rules. Timely evaluation and reform of investment policy is utmost important for strengthening the position of banks.

1.1.2.1 Investment Policy: Profitability Vs Liquidity

Investment policy is an important ingredient of overall national economic development because it ensures efficient allocation of fund to achieve the materials and economic well being of the society as a whole. In this regard, joint venture bank investment policy push drives to achieve priority of commercial sectors in the context of Nepal's economic development. National development of any country depends upon the economic development of that country and economic development is supported by financial infrastructure of that country. Banks constitute an important segment of financial infrastructure of any country. Banking when properly organized it aids and facilities the growth of trade and industry and hence of national economy. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development.

Banking plays a significant role in the development of nations. Bank is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of functions. Therefore it is difficult to decide the function of a modern bank because of their complexity and versatility in operation. Various authors have

defined the word 'Bank' in different ways. 'A commercial bank is dealer in money and it substitutes for money such as cheque or bills of exchange, it also provides a variety of financial service.' (*Britannica, 1985:600*)

Commercial banks are major financial institution, which occupy quite important place in the framework in every economy because they provide capital for the development of industry. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of country. The bound policies help commercial banks maximizing quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushed forward the forces of economic growth.

In the study the word investment conceptualized the investment of income, savings or other collected fund. The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there is adequate saving. If all the incomes and savings are consumed to solve the problem of hand to mouth and to the other basic needs. Then there is no existence of investment. Therefore, both saving and investment are interrelated. Investment policy is an important ingredient of overall national economy development because it ensures efficient allocation of fund to achieve the materials and economic well being of the society as a whole. In this regards, joint venture bank investment policy push drives to achieve priority of commercial sectors in the context of Nepal's economic development.

1.1.3 Introduction of Two Selected Commercial Banks:

The establishment of joint venture & commercial banks has given a new horizon to the financial sector of Nepal. This study is mainly focused to explore the lending strengths of Himalayan Bank Limited and Nepal SBI Bank Limited.

1.1.3.1 Nepal SBI Bank Limited

Nepal SBI Bank was incorporated in Nepal on April 28, 1993 as a public limited company. It commenced operations on July 7, 1993 & is principally engaged in the business of banking, as defined in the Banks & Financial Institutions Act , 2006. It is a joint venture bank with State Bank of India. The bank is managed in accordance with the joint venture and technical service agreement between State Bank of India & Nepalese promoters.

The main objective of this bank is to carry out modern banking business in the country. The bank is providing various services to their customers like as consortium finance, working capital, long term loan, demand loan, hire purchase loan, letter of credit, bank guarantee, bills purchase, remittance all over the world.

Share subscription capital structure:

Subscription	% Holding
State Bank of India	50%
Employee Provident Fund	15%
Agriculture Development Bank	5%
General Public	30%
Total	100%

Source: <http://nepalsbi.com.np>

1.1.3.2 Himalayan Bank Limited

Himalayan Bank Limited is joint venture bank with Habib Bank of Pakistan, was established in 1992 A.D., under the company act 1964. This is the frist joint venture bank managed by Nepalese chief executive. The operation of the bank has started from February 1993.

Himalayan Bank Limited has always been committed to providing quality services to its valued customers are treated with utmost courtesy as valued clients. The Bank, wherever possible, offers tailor made facilities to its clients, based on the unique need and requirements of different clients. To further extend the reliable

and efficient services to its valued customers, Himalayan Bank has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The Bank already offers unique services such as SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future.

Share subscription and capital structure:

PARTICULARS	PERCENTAGE
<i>1. Domestic Ownership</i>	<i>80%</i>
1.1 Government of Nepal	
1.2 Employees Provident Fund	14%
1.4 Nepalese Business Groups	51%
1.5 General Public	15%
1.6 Others	
<i>2. Habib Bank Limited (Pakistan)</i>	<i>20%</i>
Total	100%

Source: <http://www.himalayanbank.com>

1.2 Statement of the Problem

In developing countries, the contribution on industrial sector is also very low in the output and the employment. In Nepal the commercial bank has played a catalytic role in the economic growth. Its investment range from small-scale cottage industries to large industries making investment in loans and government securities one may always wonder which investment is better. It can be hypothesized that bank portfolio variables like loans, investment, cash reserve, deposit and borrowing affects the national income and Government policy affects these

variables. Such as the effect of an interest rate on the bank portfolio variables is of great concern, therefore when monitoring money and credit conditions, the central bank has to keep an eye on the bank portfolio behavior. Nepalese commercial banks have not formulated their investment policy in an organized manner (Source: Banking & Financial Statistic, 2066). They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore the implementation of policy is not in an effective way.

Thus the present study will make a modest attempt to analyze investment policy of Nepal SBI Bank Ltd. and Himalayan Bank Ltd. In this study, Nepal SBI Bank investment policy is analyzed comparing it with Himalayan bank. Following are the major problems that have been identified for the purpose of this study.

- Do the Nepal SBI Bank and Himalayan Bank utilize their available fund?
- Whether these commercial banks are able to meet obligations?
- Is Nepal SBI Bank fund mobilization and investment policy more effective and efficient than Himalayan Bank?
- Are they maintaining sufficient liquidity position?

1.3 Objective of Study

Main objective of this study is to examine investment policy of Nepal SBI Bank and Himalayan Bank. The specific objectives of the study are as follows:

- To analyse the investment trend & their projection of selected commercial banks.
- To evaluate the liquidity, profitability and risk position of HBL & SBI Bank Ltd.
- To analyze relationship between deposits loan and advances, investment, net profit and compare them between HBL & SBI Bank Ltd.
- To access the impact of investment policy on performance.

- To suggest and recommend on the investment policy of sample banks.

1.4 Significance of the Study

This study is to find out the existing situation as well as future prospectus of marketing and financial returns. The collected fund is utilized in a good manner as investment then only good return and sustainability is possible. Return on investment first sustains the institution and provides handful income to the investors. The better the investment policy, the more valuable the company, the higher return to share holders etc and vice versa. Since the different parties, shareholders, general public and government are directly affected by the investment policy of the financial institutions. The researcher feels the needs to study this policy effects on following stated parties.

- Management of banks
- Financial institution
- Share holder
- General public (customer, depositors and creditors)
- Related parties

Nepalese commercial banks have not formulated their investment policy in an organized manner (Source: Banking & Financial Statistic, 2066). They mainly depend upon the instructions and guidelines of NRB. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way. Thus the present study will make a modest attempt to analyze investment policy of Himalayan Bank and Nepal SBI Bank Ltd. This study will provide a useful feedback for academic institution, bank employees, trainees, investors, for financial person, policy making bodies and other concerned people with bank.

1.5 Limitation of the Study

The followings are limitation of the study:

1. Most of the data used in the research are of secondary-nature; therefore there might be reporting errors.
2. This study covers only a five year period i.e. from 2007/08 to 2011/12.
3. Data which are related to find mobilization as loan & advance investment on government securities and other financial institutions are considered.
4. This study is based on secondary data from the banks' annual report, different publication, website and journals.
5. Only two banks Himalayan Bank and Nepal SBI Bank are taken as joint venture banks for this study.

1.6 Organization of the Study

The study has been divided into five chapters:

Chapter One: Introduction

This chapter deals with subject matters of the study consisting background of the study, statement of the problem, objective of the study ,significance of the study ,limitation of the study and organization of the study.

Chapter Two: 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, journals, research works and thesis etc.

Chapter Three: Research Methodology

This chapter deals with research methodology and it includes research design, population and sample, source and technique of data collection and data analysis tools.

Chapter Four: Data Presentation and Analysis

This chapter deals with analysis and interpretation of the data using financial and statistical tools described in chapter three. This deals with the presentation and analysis of data through a definite course of research methodology. This chapter deals with different statistical tools and financial tools mainly consists of ratio analysis, which involves the liquidity ratio, asset management ratio, profitability ratio, risk ratio and growth ratio. Statistical tools involve co-relation analysis and trend analysis which have been used to present the data and analyze them which are related to the investment policy and fund mobilization of selected two banks. Similarly this chapter also includes the major finding of the study.

Chapter Five: Summary, Conclusion and Recommendations

This chapter provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks.

CHAPTER-II

REVIEW OF LITERATURE

Review of Literature is basically a stock taking of available literature in the field of research. This deals with conceptual frame work, review of reports related to concerned banks, review of research works, review of books, review of articles and relevant study on this topic and review of thesis works performed previously. This chapter helps to take adequate feed back to broaden the information based and inputs to the study.

2.1 Conceptual Frame Work

Meaning of Commercial Bank

Commercial Banks are an institution which accepts deposits, makes business loans, and offer related services. Commercial banks also allow for a variety of deposit accounts, such as checking saving and time deposit. While commercial banks provide services to individual, they are primarily concerned with receiving deposits and lending to business.

Commercial banks deal with other people's money. They have to find ways of keeping their assets liquid so that could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be made understand that the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and full. The banker has to keep adequate cash for this purpose. Cash is an idle asset and bankers can't afford to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore the bankers have to distribute his assets in such a way that he has adequate profits without sacrificing liquidity (*Radhaswamy, 1979:27*).

‘Commercial Bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services’ (*www.investorwords.com*)

A commercial banks one which exchange money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries for such specific purpose. (*en.wikipedia.org/wiki/Bank*)

‘Banks are those institutions which accept deposits from the public and in turn provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect the fund as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank.’ (*Bhalla, 1983:2*)

The fulfillment of credit needs of various sectors, which ensures investments. She expressed in her books ‘portfolio Behaviors of commercial banks in Nepal’s.’ ‘The commercial banks fulfill the credit needs of various economic sectors including policy of commercial banks is based on the profit maximization of the institute as well as the economic enhancement of the country’ (*Shrestha, 1995:51-52*).

Meaning of Investment

Investment can be defined as the purchase of the financial product or purchase of a producer of a physical good such as durable item or inventory with the expectation of possible future return or in the hope of improving the business. In other words Investment means use money in the hope of making more money. Investment in its broadest sense means the sacrifice of current rupees (dollars) and resources for the sake of future rupees (dollars) and resources. The future is uncertain therefore a strict guideline is required in order to minimize risk with a good practice through a good investment policy. Investment policy means a formal description of the

investment philosophy that will be utilized for a given fund, retirement plan, or other investment vehicle.

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank, the bank may invest by lending the funds to various business companies. These firms in turn may invest the money in new factories and equipment to increase their production. In addition to borrowing from banks most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issue bonds to obtain funds to invest in different projects like the construction of dams, roads and schools. All such investments involve a present sacrifice of income to get an expected future benefit.

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

In conclusion that investment means use of rupee of amount today by expecting more income in future. It is clear that investment is the mobilization of funds today with expected additional return in future but the return sometimes may be negative also.

Sound investment policies of a bank is such that its funds are distributed in different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand; moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets a serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal, manipulation of loan, misguided leading policy or unexpected economic downturn. Therefore the bank investment policy must be

such that it ensures that it is sound and prudent in order to protect public funds (Baidhya, 1997: 46-47).

Investment has factors. It may involve putting money into bond, treasury bills, or notes or common stock, or painting of real estate, or mortgages or oil ventures, or cattle or the theater. It may involve specially in bull markets or selling short in bear markets. It may involve options; straddles, tights, warrants, convertibles, margin, mutual funds, money market funds, index funds and result in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the lucky, the rewards may be substantial, for the uniformed results can be disastrous. (www.investorwords.com)

An investment may be defined the current commitment of funds for a period of time to derive a further flow of funds that will compensate the investing unit for the time. The funds are committed for the expected rate of inflation and also for the uncertainty involved in the future flow of the funds (Reilly, 1986:92).

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 places in the present and its magnitude as generally uncertain (Sharpe, Alexander and Bailey, 1995: 1).

The investment objective is to increase systematically the individuals' wealth, defined as asset minus liabilities. The higher the level of desired wealth the higher must be received. As investor seeking higher return must be willing to take higher level of risk (Cheney and Moses, 1992:13)

An investment is a commitment of money that is accepted to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for a future uncertain benefit (Francis, 1994:1).

In investment decision, expenditures and benefits should be measured in cash. 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, investments should be evaluated on the basis of a criterion which is compatible with the objective of the shareholder's fund maximization. An investment will add to the shareholder's wealth if it yields benefit in excess of the minimum benefits as per the opportunity cost of capital. (Pandey, 1999: 407)

In the study of the financial institutions the investment and investment problem will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further source of income. Thus the investment for insures purpose will be the management of the surplus recourses in such a way as to make it work for providing benefits to the supplier of the funds by letting third party to use such resources. However the investments need to be a procedural task. It must follow a definite investment process, which definitely being from the formulation of proper investment policy.

Managing the Joint Venture Company

An important function of the shareholders' agreement and articles of association is to reflect the agreed arrangements for managing the joint venture vehicle. Different considerations will apply if it is a 50/50 joint venture where there is likely to be equal representation on the board as opposed to a joint venture involving a minority shareholder who requires special protection. (Source: www.nrb.com.org)

Board of the joint venture company

Firstly it should be established whether the board of the joint venture will have an executive role or whether there will also be an executive body with a secondary supervisory body consisting of shareholder representatives who approve the strategy and important decision. There will be some matters that the ventures will regard as crucial to protect the value of investments. It is not unusual for these to be subject to shareholder approval rather than board approval.

It is not essential for the management rights and responsibilities to correspond with equity ownership. Therefore, a party may be given greater management rights, for example, rights over decisions affecting technical and management areas.

A director may face a conflict between the interests of the venture and interests of his appointing company. There is a balance to be struck between his duty to exercise his power for the benefit of the venture as a whole and his duty to protect the shareholder who appointed him. In practice, the appointee can exercise his powers in accordance with the wishes of the appointing shareholder provided that, in doing so, he does not act blindly, but considers the venture as a whole. To the extent that there are areas for conflict, it may be better for these to be dealt with at shareholder level.

Advantages of Joint Venture

The joint venture provides companies with the opportunity to gain new capacity and expertise. They allow companies to enter related businesses or new geographic markets or gain new technological knowledge. Joint Venture banks have access to greater resources, including specialized staff and technology. They include sharing risks with a venture partner. Joint ventures can be flexible. For example, a joint venture can have a limited life span and only cover part of what you do, thus limiting both your commitment and the business' exposure. In the era of divestiture and consolidation, JV's offer a creative way for companies to exit from non-core businesses. Companies can gradually separate a business from the rest of the organization, and eventually, sell it to the other parent company. Roughly all joint ventures end in a sale by one partner to the other.

Disadvantages of Joint Venture

It takes time and effort to build the right relationship and partnering with another business can be challenging and the problems are likely to arise if: The objectives of the venture are not 100 per cent clear and communicated to everyone involved. There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners. Different cultures and management styles result in poor integration and co-operation. The partners don't provide enough leadership and support in the early stages. A lack of communication among the partner will prove fatal; in this case both may focus on different projects instead on one common goal. The share of the profit, since you share the asset you need also share the profit depending upon the size of the venture or the agreement.

Role of Joint Venture Banks

Joint venture banks in developing countries like Nepal have the greatest responsibility towards the economic development of the country. In the present day world in the developed and developing money economies ,the vital process of production and consumption and significantly affected by the aggregate money supply consisting of the currency, demand and time deposit with banks. The main goal of the banks as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it too has responsibility to provide social service oriented contribution for the socio-economic enlistment to the by providing specially considered loans and advancement towards less privileged sectors. The scope of this study lies mainly in filling a research gap on the study of the investment of the policy joint venture banks of Nepal. This study is basically confined to reviewing the investment policy of joint venture banks the five year period. This study may also be useful to the person who is the interested to do research in banking sector.

The establishment of the joint venture banks, enforcement of priority sector and productive sectors lending policies of Nepal Rastra Bank to financial institutions does not seem to have an appreciative impact. Nepalese joint venture banks have not formulated their investment policies in organized manner. They mainly rely

upon the instruction and guidelines of Nepal Rastra Bank. They don't have clear view towards investment policy further more. The implementation of the policy is not in an effective way. The problems of joint venture banks are presented briefly as under:

- Joint venture banks are efficient but how far are they efficient?
- State the relationship of the investment and loans and advances with total deposits and net profits.
- Are they maintaining sufficient liquidity position?
- Whether these commercial banks able to meet obligation or not?
- Are they maintaining its deposit and credits to increase its volume of banking operations?

2.2 Features of a Sound Lending Policy

The greater the credit created by the bank the higher will be the profitability. Income and profit of the financial institutions like commercial banks and finance companies depend upon its lending policy, investment policy of collected fund in different securities. A sound lending and investment policy is not only prerequisite for bank's profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal.

A. Safety and security

Financial institutions should inlets 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. It must not invest its fund into speculative businessman, who may be bankrupt at once and

who may earn millions in a minute also. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable.

B. Liquidity

It is the position of the firm to meet current or short-term obligations. General public or customers deposit their saving 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 of the customers, every firm must keep proper cash balance with them while investing in difference securities and granting loan for excess fund.

C. Purpose of loan

This is very important question for any banker is that, is a customer need of loan? If borrower misuses the loan granted by the bank, there will be heavy bad debts. Detailed information about the scheme of the project or activities would be examined before lending.

D. Profitability

To maximize the return on investment and lending position, financial institutions must invest their collection 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.

E. Diversification

Diversification of loan helps to sustain loss according to the law of average; if a security of a company is divided, there may be an appreciation in the securities of other companies. 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. In this way, the loss can be recovered.

F. Legality

A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of Law and other while mobilizing its funds. Illegal securities will bring out any problems to the investors.

(Source: <http://kishakisi.blogspot.com/2010/09/features-of-sound-lending-and-fund.html>)

2.3 Review of Related Studies

2.3.1 Review of Books and Articles

This research is the first of this kind and useful reference of related books, journals & articles and previous research work for the researcher carrying for their Master dissertation majoring in Finance. Various studies have been made or done in this field. Some of them have been reviewed so that the chances of duplication can be minimized.

Sharp, Alexander and Bailey (1998) define that investment in its broadest sense, means that sacrifices of current dollars for future dollars. Two different attributes are generally involved: Time & Risk. The sacrifice takes place in the present & is certain. The reward comes later or at all and the magnitude is generally uncertain.

1. Real Investment: Generally, it involves some kind of tangible assets such as: land, machinery & factories.
2. Financially Investment: Involves contract has written on piece of paper such as: common stocks & bonds.

Jerome, Edward & Zeikel (1986) defined the world Investment has many Factors. It may involve money into bonds. It may involve specially in bull market or selling short in bear markets. It may involve options, straddles, silver mutual funds, money market fund, index funds & result in accumulation of wealth or dissipation

of resources. Diversity and challenge characterized the field. For the able or lackey the uninformed result can be disastrous.

Cross & Hempal (1980), Commercial banks bring into being the most important ingredient of the money supply demand deposits through the creation of credit in the form of loans & investment. Banks are the custodians of the community's money as well as the suppliers of its liquidity, Since the study is concerted with the investment activities of commercial Bank in Nepal, we take in to consideration exclusively the sector that are required for & related to the same.

Shrestha, (1995), explains in her book, Portfolio behavior of commercial banks sector of the economy including agriculture, industry, commercial & social service sectors. The lending policy of commercial is based on the profit maximizing of the institution as well as the economic enhancement of the country.

From above definition, it is clear that an investment means to trade a know 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 uncertainly involved in expected future cash flows. This investment is the most important function of commercial banks. It is very challenging task for commercial banks. So, a bank has to be very cautions while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investable funds.

Bajracharya, (1990) in his article “Monetary Policy” deposit mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal. Commercial banks and more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sector of the economy.

Kishi, (1996) in his article, concludes that following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy more banks and finance companies have come up as a welcome measure of

competition. Slowly and steadily, the two governments controlled banks, Nepal Bank Ltd. and Rastriya Banijya Bank has also shown an improvement of non-performing loans and is taking steps to adopt improved technology. However, higher economic growth with social justice bringing a significant benefit to the poor is yet to be activated as envisaged by the government.

Sharma & Bhatt (2002), in their article 'Priority receiver sector' has present the commercial banks should take care of board national interest & they showed not confine their lending activities only to commercial area providing quick interest if some proportion could be directed to the area conducive to build economic infrastructures of the country it would create atmosphere conducive to their investment in future.

In our society where ignorance & literacy is in wild scale, it is necessary that the banks search entrepreneurs instead of entrepreneurs searching bank. So, they have opinioned that the priority sector program is a timely & opportunities there by increasing production & the general living standard of rural poor. But the success of the largely depends upon the interpreted operation with other program design for rural development. Further they agree that various programmers: Rural development land reform, back to the village national, champion audit literacy etc. couldn't materials their objectives despite their some theoretically philosophy & food objectives.

Pradhan (2003), 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, GDP is significantly associated with saving. Investment and capital formation both at current prices and in real terms. The result of the empirical analysis led to 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.

Mahat (2004), The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quantity of inputs employed and the quantity of output produced. An increase in productivity means that more output can be produced from the same inputs or the same outputs or the same outputs can be produced from fewer inputs. Interest expenses to interest income ratio shows the efficiency of banks in mobilizing resource at lower cost and investing in high yielding assets. In other words, it reflects the efficiency in use of funds.

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

2.3.2 Review of Previous Theses

Several thesis works have been conducted by various student regarding different aspects of commercial banks. They have importantly elaborated and addressed various aspects or activities of commercial banking such as financial performances, lending practices, investment policy, interest rate structure, resource

mobilization, capital structure, etc. Some of them as to be relevant for the study “topic” are presented below:

Thapa (2005), has a research on the topic “comparative study on Investment policy of Nepal Bangladesh Bank Limited and other joint venture banks”. Her main objectives were to analyze the relationship between loan and advance and total investment with other financial variable of NB bank and compare them with NABIL and NBL. Similarly, the research objective was to evaluate the liquidity, asset management efficiency, profitability and risk position of NB bank in comparison to NABIL and NBL. Also to study the various risks in investment of NB bank in comparison to NABIL and NBL.

Her major findings includes that, NB bank has good deposit collections, it has better liquidity position. It has made enough loan and advances but it has the negligible amount of investment in government securities. Credit risk ratio,, interest risk ratio, capital risk ratio and profitability position of NB bank is comparatively worse than NABIL and NBL. There was positive relationship between deposit and loan and advance, outside assets and net profit of NB bank.

Her major recommendations were on NB bank to invest more in government securities, to implement sound credit collection policy and to implement sound and liberal lending policy to make more implement in loan and advances.

Dhungana (2006), 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 were 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. He main focus was also to analyze the relationship between loan and advance and total investment with

other financial variable of NBBL and compare with HBL and NSBL. Also to examine the profitability position and credit risk ratios and interest risk ratios was his other objective.

His major findings showed that 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 was comparatively not better than that of HBL but better than that of NSBL. The credit risk ratios and interest risk ratios of NBBL was higher than that of HBL and NSBL banks profitability was solely depend on Interest charged by a bank but the high interest rate risk of NBBL showed 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 were 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 and to have effective portfolio management, to have liberal lending policy and to upgrade the banking facility.

Loudari (2007), conducted a study on "A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd." His main objectives were to examine the liquidity asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd. To study the growth ratios of loans and advances and investment to total deposit and net profit

of NIBL on comparison to Nepal SBI Bank Ltd. He also focused on analysis of relationship between deposit and investment, deposit and loans and advances, net profit and outside assets of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.

His majors findings were that the current ratios for both the Banks was satisfactory. Although cash reserve ratio (CRR) was managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight toward cash management. Their cash reserves have fluctuated in a high degree. Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank Ltd. has decreased. The analysis of growth ratios showed that growth ratios of total deposits, loans and advances, total investment and net profit of Nepal Indosuez Bank Ltd. were less than that of Nepal SBI Bank Ltd. The trend value of loans and advances to total deposit ratio was decreasing in case of both the banks. The trend value of total investment to total deposits ratio was also decreasing in case of both the banks.

His recommendations were on NIBL to invest more in government securities. Since their cash reserves have fluctuated in a high degree so he suggested both bank towards sufficient cash management. He also recommended NIBL for utilization of their deposit effectively.

Raya (2008), in his thesis, “Investment Policy and Analysis of Commercial Banks in Nepal” made a comparative study of SCBL. With NIBL and NBBL. The main objectives was to discuss on fund mobilization and Investment policy of SCBL in respect to its fee based off- balance sheet transaction and fund based on balance

sheet transaction. He also focused on evaluation of the quality, efficiency and profitability and risk position and trend of deposit, investment, loan and advances and projection for next years.

The major findings during his research included mean current ratio being slightly higher than NBBL and NIBL. Mean ratio of cash and bank balance to total deposit of SCBL was lower than NIBL and NBBL. Liquidity position of SCBL was comparatively better than NIBL and NBBL. It has the lowest cash and bank balance to total deposit and cash and bank balance to current ratio. SCBL has a good deposit collection. It has made enough investment on government securities but it has maintained low investment policy on loan and advances. SCBL is comparatively average successful in its on balance sheet operation. But off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position. SCBL is comparatively higher position than that of other banks, as well as its use to provide interest to the customers for different activities. There was positive relationship between deposit of loan and advances and between asset and net profit of SCBL.

He recommended for increase in investment policy on loan and advance, effective portfolio management and for project oriented approach & to enhancing the Off Balance Sheet operation.

Joshi (2009), has conducted a study on “Investment Policy of Commercial Bank of Nepal” a comparative study of EBL with NABIL Bank and BOK. The major objectives were to examine the liquidity assets management and profitability position and investment policy of EBL in comparison to NABIL and BOKL. She also focused on analysis of the relationship between loan and advance and total

investment with other financial variable of EBL and compare with NABIL and BOKL. And to study the various risks in investment of EBL in comparison to NABIL and BOKL.

Her majors findings showed that EBL has higher idle cash and bank balance. It may decrease profit of bank. It was good to invest more on share & debentures as it encourage financial and economic development of the country. A commercial bank must mobilize its fund in different sector such as to purchase share & debentures of other financial and non financial companies out of total working fund. EBL has invested its more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture in very nominal. Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said “all eggs should not be kept in the same basket”. The bank should make continuous effort to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio. EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor's fund. On the basis of above facts, it is seen that EBL has invested much of its fund in total outside assets but it has not achieved the desired result. The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle.

Her recommendations was to mobilize its idle cash and bank balance in profitable sector as loan and advance. To invest more its fund in share and debentures of different companies. The bank should fix minimum level of bank balance and the amount needed to open an account should also be affordable for such small depositor's. To investing its funds keeping in mind the interest rates so as to be earns high returns from the investment.

Thapa (2010) “A Comparative study on investment policy of SCBNL & NABIL Bank Ltd.” His main objective was to measure the relationship among total investment deposit, loan and advances, net profit outside asset of SCBNL & NABIL. He focused on analysis of the trend of deposit utilization, total investment, net profit, loan and advance of SCBNL & NABIL. The objective was also to evaluate the liquidity, asset management efficiency, profitability, growth position and risk position of SCBNL & NABIL. To find out the opinion of the people in context of investment decision, appropriate sector for making investment reason for investing major portion of deposit in loan and advance, major problems that bank are facing and the policies and guidelines of Nepal Rastra Bank were also included in his objective of research. Further the research objective was to provide suitable suggestion and recommendations for the improvement of the bank’s performance.

His major findings showed the liquidity position of the SCBNL was higher than that of NABIL. SCBNL was more consistent than NABIL. The mean ratio of investment on government securities to current asset of NABIL was lower than that of SCBNL. The variability ratio of SCBNL was less consistent than NABIL. The variability of the investment on government securities ratio of NABIL was less consistent. During the study period, the mean ratio of credit risk of NABIL was higher than that of SCBNL. It means NABIL has beared more risk in comparison to SCBNL. The credit ratio of NABIL was more consistent than that of SCBNL. There was highly positive and significantly correlation between total deposit and total net profit of SCBNL & NABIL. The main factors considered while taking investment decision, the profitability was considered as main factor while security, political climate, level of income and government policy was considered as other factors respectively.

His main recommendation were that the sampled firms haven't properly analyzed the causes & effects of the variables so they are recommended to prepare future investment policies & plan after detail analysis of causes & effect of the variables. Further he recommended for evaluating the investment opportunities &

alternatives using statistical, capital budgeting & other financial tools to avoid the large amount of doubtful & risks as they have main trends a large amount of loan loss provision. Commercial banks & finance companies need to add extra amount or investment on government securities as they are less risk investment & are considered as liquid assets.

2.4 Research Gap

From the above all studies conducted by various researcher, it seems that Himalayan Bank and Nepal SBI Bank is still in developing stage and it is facing various challenges. Furthermore it also shows that though various researches works has been conducted about the investment policy, such study related to awareness has been limited.

Here, in this study we are trying to find the liquidity position of Nepal SBI Bank and HBL respectively. It is therefore a vital tool to analyze the financial position of the firm. We would guide our prospective clients to measure the strength and weakness of Nepal SBI Bank and HBL and make decision at their will. Our study will also give opportunity for the commercial banks like Nepal SBI Bank and HBL to find their competitive edge in the banking industry. This will invariably help these banks to efficiently and effectively use the resources and give the clients a better deal in the long run. In other words analyzing their marketability for their future growth.

CHAPTER-III

REASERCH METHODOLOGY

Research Methodology, describes the methods and process applied in the entire aspects of study. Every research should be outlined in a systematic manner and for that reason Research Methodology is one of the most important parts of every research. In fact, Research Methodology is a way to systematically solve the research problems.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the method and proves applied in the entire aspect of the study. This study helps to conclude the real position of Himalayan Bank and Nepal SBI Bank Ltd. The study will seek the conclusion to the point that what position Nepal SBI Bank Ltd. and has got in whole commercial banks of Nepal and recommend the useful and meaningful points so that all concerned can achieve something from this study. To accomplish the global, the study follows the research methodology described in this chapter.

3.1 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the over-all operational pattern or framework of the project that stipulates what information is to be collected from which source by what procedures.

Descriptive as well as analytical approaches have been adopted in this study. This is a comparative study of two commercial banks. This study mainly has been based on secondary data of HBL and Nepal SBI Bank Ltd. The data relating to the investment, deposit, loan and advance and profit directly obtained from the balance sheet and profit and loss account. The main source of data assessed under the study includes, concerned banks i.e. HBL and Nepal SBI Bank. Supplementary

data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, ministry of finance, Central library, and department library. Various data and information are collected from the economic, journals, periodicals, magazines and publications etc. Regression analysis of microeconomic variables both bank, significance test of correlation via hypothesis t- testing and trend analysis are used in this study.

3.2 Sources of Data

Research Design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions (Kerlinger, 1978). The research design basically followed the comparative evaluation of investment policy in the sample firms. Analytical and descriptive approaches are used to evaluate the investment policy' of the sample firms. In this study, descriptive and analytical research designs have been followed in order to make the study more authentic and reliable, financial as well as statistical tools are used for comparison Nepal SBI Bank Ltd. with HBL separately.

Some financial and statistical tools have been applied to examine facts and descriptive, techniques have been adopted to evaluated investment of Himalayan Bank and Nepal SBI Bank Ltd.

3.3 Population and Sample

There are 32 commercial banks in Nepal. Whose shares are traded actively in stock market, hence it is not possible to study all of them because the research is going to be conduct in a limited period of time as well as resources play a vital role. The sum of different commercial bank in Nepal is taken as total Population. In this study, two joint venture banks Nepal SBI Bank Ltd. and HBL (as they are one of the competitive joint venture banks in Nepal) have been taken into account for research purposes as samples as they are one of the competitive joint venture banks in Nepal to compare their investment policy.

3.4 Analysis and Presentation of Data

The analysis of data will be done according to the pattern of data available. To achieve the objective of the study various financing, accounting and statistical tools have been used to achieve the objective of study. This studies some financial and statistical tools to accomplish the objectives of this study.

3.4.1 Financial Tools

Financial tools help to show the mathematical relationship between two accounting items or figure. Ratio analysis is the only tools that can collect the financial performance and status of a firm with the other firms. Ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Only ratio has been covered in this study, which is related to investment policy of banks. This study contains following ratios;

A. Liquidity Ratio

Liquidity ratios are used to judge the ability of banks to meet its short terms liabilities that are likely to mature in the short period. Such insights can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of advertise it is the measurement of speed with which a bank's assets can be converted into cash to meet deposit with drawl and other current obligations. Under liquidity ratio are evaluated as below;

I. Current ratio

Ability for payment of current debt from current assets is current ratio. It refers to the relationship between current assets and a current liability of a firm that also measures the short-term solvency of the firm. Current assets involve cash and bank balance, money at call or short notice, loans and advance, overdraft bill purchased and discounted, investment on govt. securities and other interest receivables and misc. current assets. Similarly, current liabilities involve deposit and other short

term loans, tax provision, dividend payable, bills payable, staffs bonus and sundry liabilities. Current ratio is calculated by dividing current assets by current liabilities. It can be measured as,

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

2:1 standard of current ratio is acceptable. Higher ratio indicates the strong short term solvency position and vice - versa.

II. Cash and bank balance to total deposit ratio

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors. The total deposit consists of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits. This ratio is computed by dividing cash and bank balance by total deposit. It can be presented as:

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

III. Cash and bank balance to Current Asset Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Cash and bank balance includes cash in hand, foreign cash and banks. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as:

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and bank balance}}{\text{Current Assets}}$$

Higher ratio shows the higher capacity of firms to meet the cash demand.

IV. Investment on government securities to Current Assets Ratio

Investment on government securities includes treasury bills, development bonds; saving bonds etc. This ratio is used to find the percentage of current assets invested on govt. securities, treasury bills and development bonds. This ratio can be computed by dividing investment on govt. securities by current assets. This can be stated as:

$$\text{Investment on govt. securities to Current Assets} = \frac{\text{Investment on govt. securities}}{\text{Total Current Assets}}$$

V. Loan and advance to Current Assets Ratio

Loan and advance includes loans, advances, cash credit, loan and foreign bills purchase and discounted. This ratio can be computed by dividing loan and advances by current assets. This can be stated as:

$$\text{Loan and advance to current assets ratio} = \frac{\text{Loan and advance}}{\text{Current assets}}$$

B. Assets Management Ratio

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following ratios are used under this assets management ratio.

I. Loan and advance to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total deposit on loans and advances for profit generating purpose of earning profit. This ratio is also called credit - deposit ratio (CD ratio). This can be stated as:

$$\text{Loan and advances to deposit ratio} = \frac{\text{Loan and advance}}{\text{Total Deposits}}$$

Where, greater ratio shows the better utilization of total deposits.

II. Total Investment to Total Deposit Ratio

This ratio implies the utilization of firm's deposit on investment in government securities and share debentures of other companies and bank.

This ratio can be calculated by dividing total investment by total deposit. Which can be states as? Total Investment

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

Hence, total investment consist investment on government securities, investment on debenture and bonds, share in subsidiary companies, share in other companies and other investment.

III. Loan and Advances to Working Fund Ratio

Loan and advances indicates the ability of any bank to canalize its deposits in the form of loan and advances to earn high return. This ratio is computed by dividing loan and advances by total working fund, which can be states as,

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

Where, Total working fund consist current assets, net fixed assets, loan for development banks and other miscellaneous assets.

IV. Investment on Government Securities to Total Asset Ratio: This ratio shows that bank's investment on government securities in comparison to the total working fund. This ratio can be computed by dividing investment on government securities by total working fund, which can be presented as,

Investment on Government Securities to Total Working Fund =

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

3) Profitability Ratios:

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed.

I) Return on Loan and Advances Ratio: This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing Net Profit (Loss) by Loans and Advances which can be expressed as

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit/Loss}}{\text{Loan \& Advance}}$$

II) Return on Total Asset Ratio (ROA): This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as Return on Assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as,

$$\text{Return on Total Working Fund Ratio (ROA)} = \frac{\text{Net Profit/Loss}}{\text{Total Working Fund}}$$

III) Interest Income to Total Income Ratio: This ratio measures the volume of Interest Income in Total Income of the bank. The high ratio indicates the high contribution made by the Lending and Investing and Vice Vera. This ratio can be computed by dividing Interest Income by Total Income presented as under,

$$\text{Interest income to Total Income ratio} = \frac{\text{Interest Income}}{\text{Total Income}}$$

IV) Total Interest paid to Total Asset Ratio: This ratio is computed to find out percentage of interest earned to Total Assets (Working Fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund is computed by dividing Total Interest Earned by Total Working Fund can be presented as

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

4) Risk Ratio: Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization cannot achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have ideas of the level of risk of risk that one has to bear while investing its funds.

Through following ratios, effort has been made to measure the level of risk inherent in the EBL and NIBL.

I) Credit Risk Ratio: Credit Risk Ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, Credit Risk ratio is expressed as the percentage of Non- Performing Loan to Total Loan and Advances.

Bank utilizes its collected fund by providing credit to different sections. There is risk of default or non- repayment of loan. While making investment, bank examines the credit risk involved in the project. The Credit Risk Ratio shows the proportion of non- performing assets in total Loan and Advances of the bank and vice- versa.

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

II) Liquidity Risk Ratio: The Liquidity Risk of the bank defines its Liquidity needs for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of Cash and Bank Balance to Total Deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as sash balance but this reduces profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

3.4.2 Statistical Tools

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured from groups of individuals or groups of observation from a single individual. The figures provide details description and tabulates as well as analyze data without subjectivity, but only objectivity. The result can be presented in brief and complicated problems can be studied in very simple way. It becomes possible to convert abstract problems into figures and complex data in the forms of table.

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as Arithmetic mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

i) Arithmetic Mean: In mathematics and statistics, the arithmetic mean, often referred to as simply the mean or average when the context is clear, is a method to derive the central tendency of a sample space. The term “Arithmetic Mean” is preferred in mathematics and statistics because it helps distinguish it from other averages such as the geometric and harmonic mean.

Arithmetic mean is calculated to find the mean of the financial ratio.

The formula to calculate mean is given by,

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

Where, X = Mean of the values

$\sum X$ = Summation of the values

N = No of observation

ii) Standard Deviation (S. D.): Standard deviation is a widely used measurement of variability or diversity used in statistics and probability theory. It shows how much variation or ‘Dispersion’ there is from the ‘Average’. A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data are spread out over a large range of values.

Technically, the standard deviation of a statistical population, data set, or probability distribution is the square root of its variance. A useful property of standard deviation is that unlike variance, it is expressed in the same units as the data.

The standard deviation is absolute measures of dispersion. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of series and vice – versa.

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

Where,

σ = Standard deviation

$\sum(X - \bar{x})^2$ = Sum of squares of the deviations

measured from arithmetic average.

N = Number of items

iii) Coefficient of Variation: The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variable is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation (C.V.) is given by the following formula in the percentage basis:

$$\text{Coefficient of Variation} \quad C.V. = \frac{\sigma}{\bar{X}} \times 100$$

iv) Measures of Correlation: We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient describes the degree of relationship between two variables. It interprets whether variables are correlated positively by which it is helpful to make appropriate investment policy for profit maximization. The Karl Pearson coefficient of correlation (r) is given by following formula

$$\text{Coefficient of Correlation } r = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

Where,

$$r = \text{Correlation coefficient}$$

$$\sum x_1 = X_1 - \bar{X}_1$$

$$\sum x_2 = X_2 - \bar{X}_2$$

The Karl Pearson coefficient of correlation always falls between - 1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation reaches to the value of Zero, it is said that there is no significant relationship between the variables. It has been used to find out the relationship between the deposit, loan and advances plus investment made by the banks.

v) Trend Analysis: Among the various methods of determining trend of time series, The most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends line following formula can be used:

$$Y = a + bx$$

Where, Y = Dependent variable

X = Independent variable

a = Y - intercept

b = Slope of the trend line

$$a = \frac{\sum X}{N} \qquad b = \frac{\sum X^2}{\sum Y}$$

Where, $\sum y$ = Sum of the observation in series y

$\sum xy$ = Sum of the observation in series x and y

$\sum x^2$ = Sum of the square of the observations in series x

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

Introduction, review of literature and research methodology are presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data, which are mainly related to the investment Policies and fund mobilization of Investment Bank Limited and Bank of Kathmandu Limited. All the Investment management is analyze by calculating following ratio.

4.1 Ratio of Total Sample Banks Investment to Individual Sample Banks Investment

This ratio indicates the portion of investment made by HBL and SBI Bank to total investment made by total sample banks. It shows how much sample banks directly involved in investment and how they made investment policy. The ratio is derived by dividing investment made by individual sample bank by Total Investment made by Total sample banks.

The Table 4.1 shows the investment made by total sample banks investment and by individual bank investment. From that table it shows that portion of investment made by HBL is decreasing trend in every year. The highest ratio of HBL is 84% in fiscal year 2007/08 and the lowest ratio is 25% in fiscal year 2011/12. The mean ratio is 67% during the study period when SD is 24 and CV is 35.90%.

Similarly it shows that portion of investment made by SBI is in increasing trend in every year except 2011/12. The highest ratio of SBI is 31% in fiscal year 2010/11

and the lowest ratio is 14% in fiscal year 2011/12. The mean ratio is 0.20 during the study period when SD is 7% and CV is 34.89%.

Table: 4.1

Total Sample Banks Investment to Individual Investment

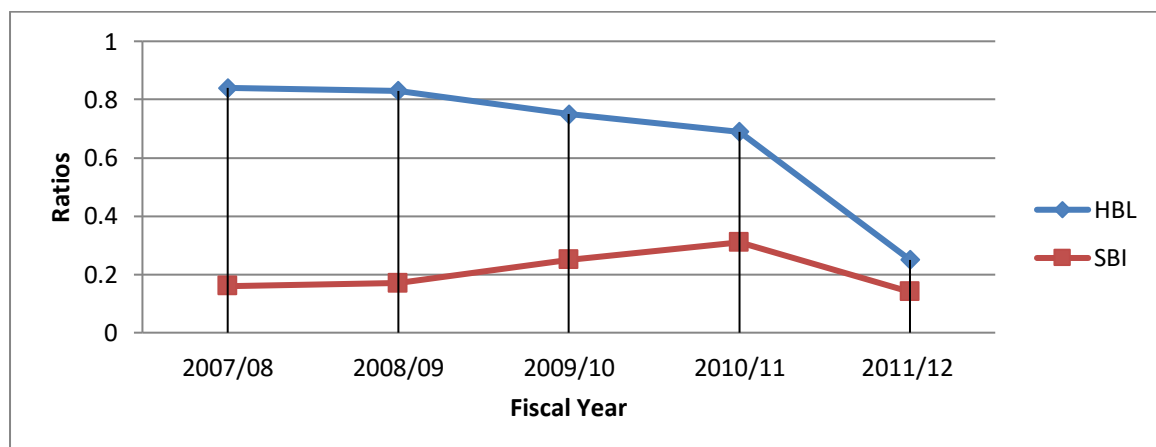
(Ratio in Percentage)

Banks \ F/Y	HBL	SBI
2007/08	0.84	0.16
2008/09	0.83	0.17
2009/10	0.75	0.25
2010/11	0.69	0.31
2011/12	0.25	0.14
Mean	0.67	0.20
S.D	0.24	0.07
C.V	35.90	34.89

Source: Appendix 1

Figure: 4.1

Total Sample Banks Investment to Individual Investment



So, from the Table 4.1 and Figure 4.1 shows that HBL has good investment policy but due to changing time it is falling up and down and SBI has improving its investment techniques and doing better every upcoming fiscal year.

4.2 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the liquidity management of banks can be presented properly.

1. Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy fiscal year the credit needs of community, to meet demands for deposit-withdrawals, pay maturity obligation in time and convert non-cash assets into cash to satisfy fiscal year immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

A) Analysis of Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

Table: 4.2

Current Assets to Current Liability (in times)

Banks F/Y	HBL	SBI
2007/08	0.88	1.14
2008/09	0.89	1.20
2009/10	0.94	0.72

2010/11	0.95	0.71
2011/12	1.00	0.73
Mean	0.93	0.90
S.D	0.05	0.25
C.V	0.05	0.28

Source: Appendix 2

Figure: 4.2

Current Assets to Current Liability

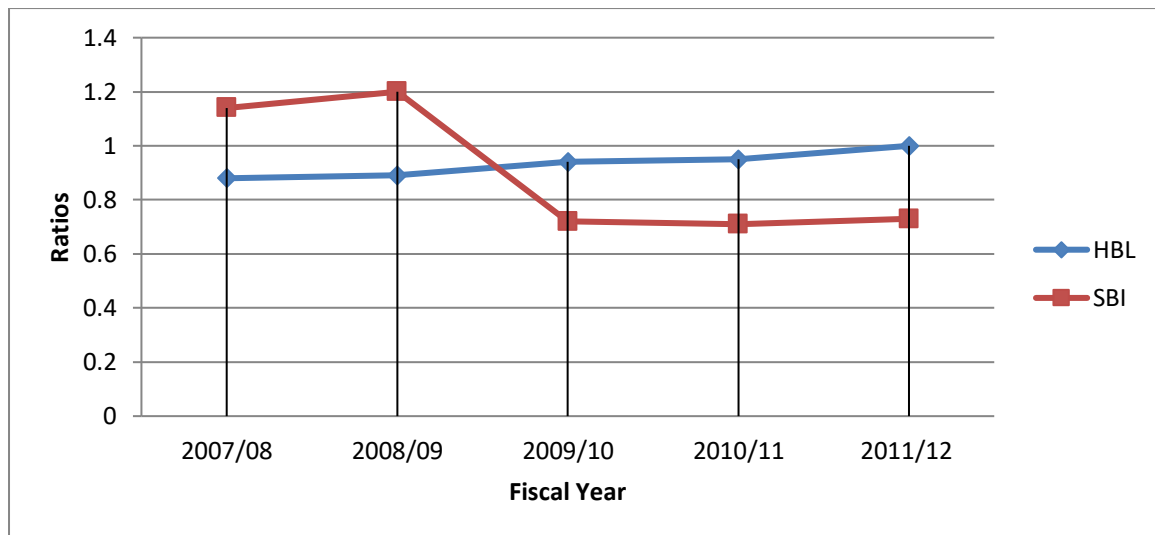


Table 4.2 and Figure 4.2 shows the current ratio of selected commercial banks during the study period. The current ratio of HBL is increasing and SBI Bank is in fluctuating trend. HBL is general said that have sound ability to meet their short-term obligations. In the case of HBL the C.R. is high in 2011/12 i.e 1%. In an average, liquidity position of HBL is greater than SBI i.e. $0.93 > 0.90$. Due to high mean ratio HBL is better than SBI. Likewise, S.D. and C.V of SBI is higher than HBL i.e $0.25 > 0.05$ and $0.28 > 0.05$. It can be said that C.R. of HBL is more consistent than SBI. Lastly, from the above analysis it is known HBL have better liquidation position and SBI have improving its liquidation position. Further they both the banks have better liquidity position as they have meet the standard ratio of 2:1.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. NRB has directed all the commercial banks to keep minimum 5.5% of total deposit in the NRB balance so as to maintain the liquidity position. Following table shows cash and bank balance to total deposit of sample banks during the study period.

Table: 4.3

Cash and Bank Balance to Total Deposit Ratio

Banks F/Y	HBL	SBI
2007/08	0.06	0.10
2008/09	0.05	0.10
2009/10	0.09	0.07
2010/11	0.10	0.10
2011/12	0.07	0.12
Mean	0.07	0.10
S.D	0.02	0.02
C.V	0.31	0.18

Source: Appendix 3

Figure: 4.3

Cash and Bank Balance to Total Deposit Ratio

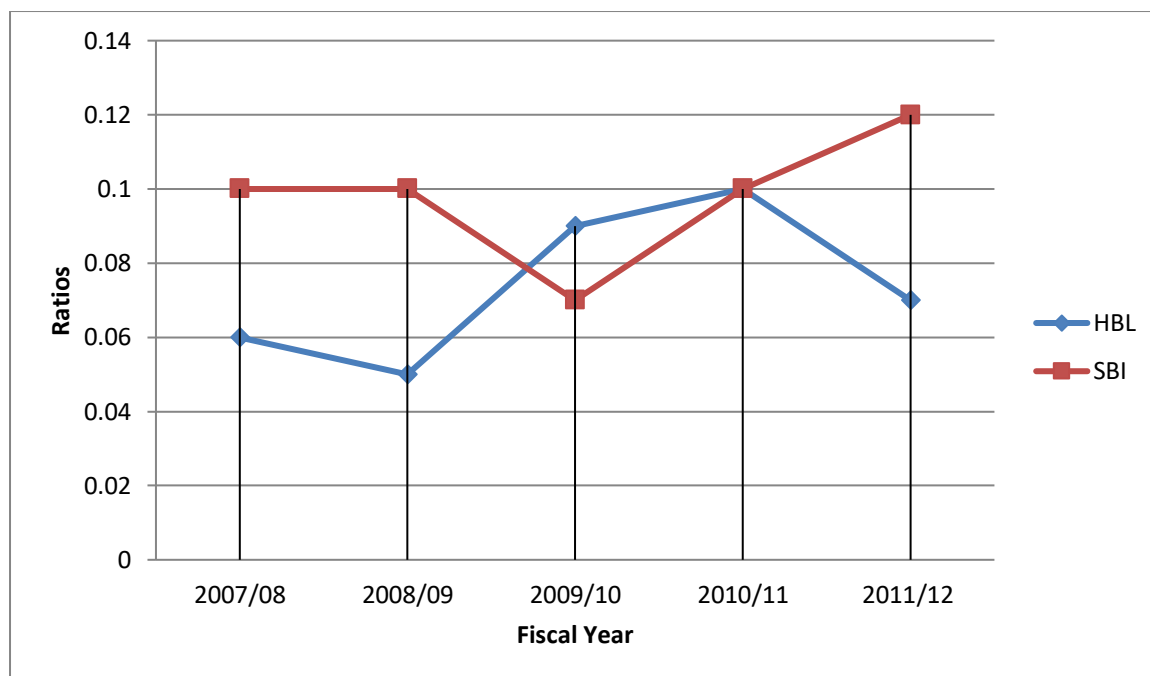


Table 4.3 and Figure 4.3 shows that the Cash and Bank Balance to Total Deposit Ratio of sample banks where both sample banks are in fluctuating trend. The highest ratio of HBL and SBI are 0.10 time in fiscal year 2010/11 and 0.12 times in 2011/12 respectively. Similarly, the lowest ratio of HBL and SBI are 0.05 in fiscal year 2008/09 and 0.07 in fiscal year 2009/10 respectively in different year.

The mean ratio of HBL and SBI, is 0.07 times and 0.10 times respectively. SBI has higher ratio than the HBL, which shows its greater ability to pay depositors money as they want. Similarly, HBL and SBI both bank has same S.D i.e 0.02 times and CV of HBL is 0.31 i.e 31%, when SBI CV is 0.18 i.e 18%.

From the above analysis has to conclude that the cash and bank balance position of SBI with respect to HBL is better in order to serve its customer's deposits. It implies the better liquidity position of SBI from the viewpoint of depositor demand.

C) Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis.

Table: 4.4

Cash and Bank Balance to Current Assets

Banks F/Y	HBL	SBI
2007/08	0.06	0.08
2008/09	0.05	0.08
2009/10	0.09	0.09
2010/11	0.11	0.14
2011/12	0.07	0.16
Mean	0.08	0.11
S.D	0.02	0.03

C.V	0.29	0.31
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Source: Appendix 4

Figure: 4.4

Cash and Bank Balance to Current Assets

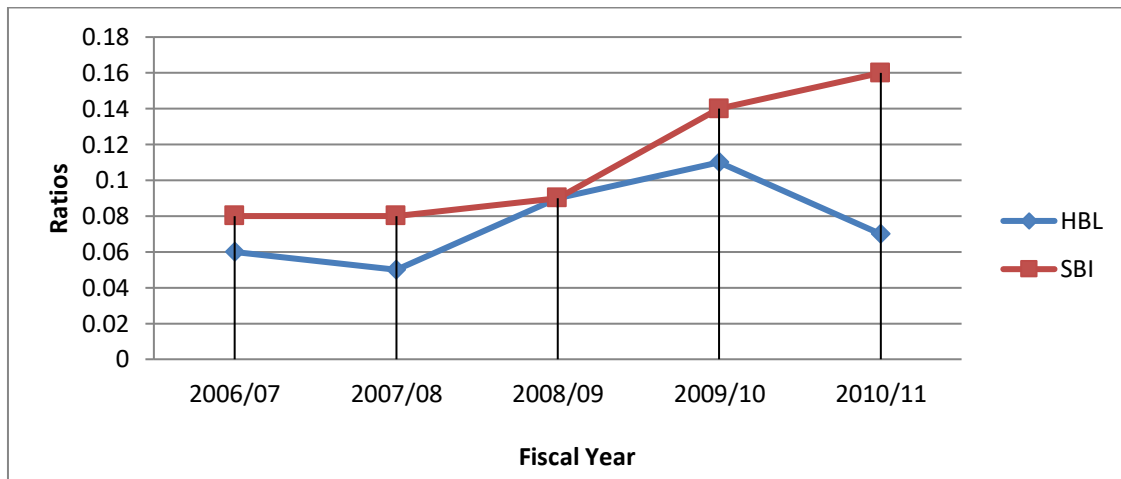


Table 4.4 and figure 4.4 shows that cash and bank balance to current assets ratio of HBL is in fluctuating trend and SBI is in increasing trend. The mean ratio, SD and CV of SBI is higher than HBL. The higher mean ratio shows SBI's liquidity position is better than that of HBL. That indicates that it has more inconsistency in the ratios in comparison to others.

Regarding the above analysis, it can be concluded that SBI has a little bit better ability to meet daily cash requirements of their customers but there is not any fix policy to maintain the standard ratio of cash balance over the period of both sample banks.

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is

interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

Table: 4.5

Investment on Government Securities to Current Assets

Banks F/Y	HBL	SBI
2007/08	0.22	0.17
2008/09	0.24	0.17
2009/10	0.12	0.14
2010/11	0.09	0.15
2011/12	0.11	0.15
Mean	0.16	0.15
S.D	0.07	0.010
C.V	0.44	0.067

Source: Appendix 5

Figure: 4.5

Investment on Government Securities to Current Assets

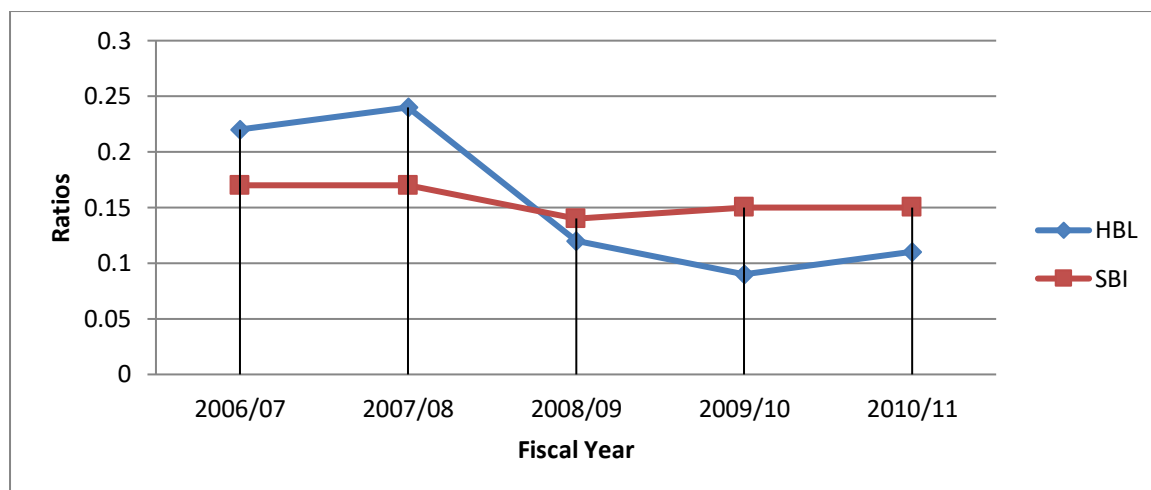


Table 4.5 and Figure 4.5 show investment on government securities to current assets ratio of sample banks. These Banks has fluctuating type ratios. The table shows the highest ratio of HBL is 0.24 times in fiscal year 2008/09 and lowest is 0.09 times in fiscal year 2010/11. In the same way, the ratio of SBI is 0.17 times in fiscal year 2007/08 & 2008/09 and lowest is 0.14 times in fiscal year 2009/10.

The mean ratio of HBL is 0.16 i.e. 16 percent which is higher than the mean ratio of SBI 0.15 i.e. 15 percent. It means HBL has invested more money in risk free assets than that of SBI bank. In another words in other word less mean ratio means it has emphases on more loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, SBI should divert its investment in govt. securities. Similarly, S.D. is of HBL and SBI ie 0.07 and 0.010 and C.V is 0.44 for HBL and 0.067 of SBI.

(E) Loan and Advances to Current Assets Ratio

To make a high profit mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers. In the present study loan & advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currency.

Table: 4.6

Loan and Advances to Current Assets

Banks \ F/Y	HBL	SBI
2007/08	0.63	0.71
2008/09	0.67	0.72
2009/10	0.74	0.75
2010/11	0.76	0.70
2011/12	0.76	0.68
Mean	0.71	0.71
S.D	0.062	0.025
C.V	0.09	0.04

Source: Appendix 6

Figure: 4.6

Loan and Advances to Current Assets

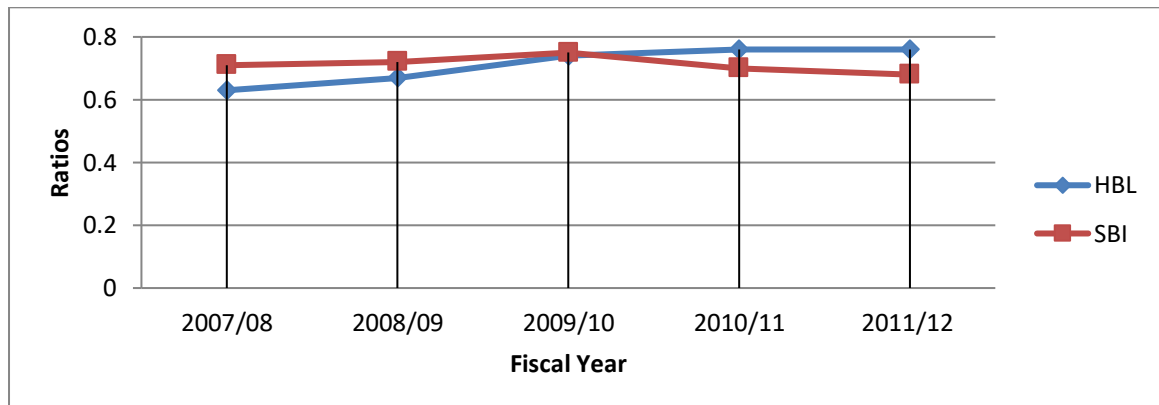


Table 4.5 and Figure 4.5 shows the total mean, standard deviation and coefficient of variation of loan & advances to current assets ratio of sample commercial banks. Through this table loan & advances to current assets ratios of the sample CBS are analyzed. In case SBI loans and advances to current asset ratios are in fluctuating trend. The highest ratio of HBL is 0.76 in fiscal year 2010/11 & 2011/12 and the lowest ratio is 0.63 in fiscal year 2007/08. Similarly, the highest ratio of SBI is 0.75 in 2009/10 and the lowest is 0.68 in 2011/12.

Mean value of this ratio of HBL is 71%, which is equal to SBI ie 71%. But SD and CV of HBL is greater than SBI i.e. $0.062 > 0.022$ and $0.09 > 0.04$ respectively.

4.3 Assets Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, so to satisfy its customers and for its own existence. Assets management ratio measures how efficiently the bank manages the resources at its commands. Through following ratios, assets management ability of banks has been measured.

A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan and advances for the purpose of profit generation. A higher ratio of loan and advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan and advances to total deposit ratio of related banks.

Table: 4.7

Loan and Advance to Total Deposit

Banks F/Y	HBL	SBI
2007/08	0.57	0.83
2008/09	0.61	0.88
2009/10	0.71	0.54
2010/11	0.74	0.50
2011/12	0.77	0.50
Mean	0.68	0.65
S.D	0.09	0.19
C.V	0.13	0.29

Source: Appendix 7

Figure: 4.7

Loan and Advance to Total Deposit

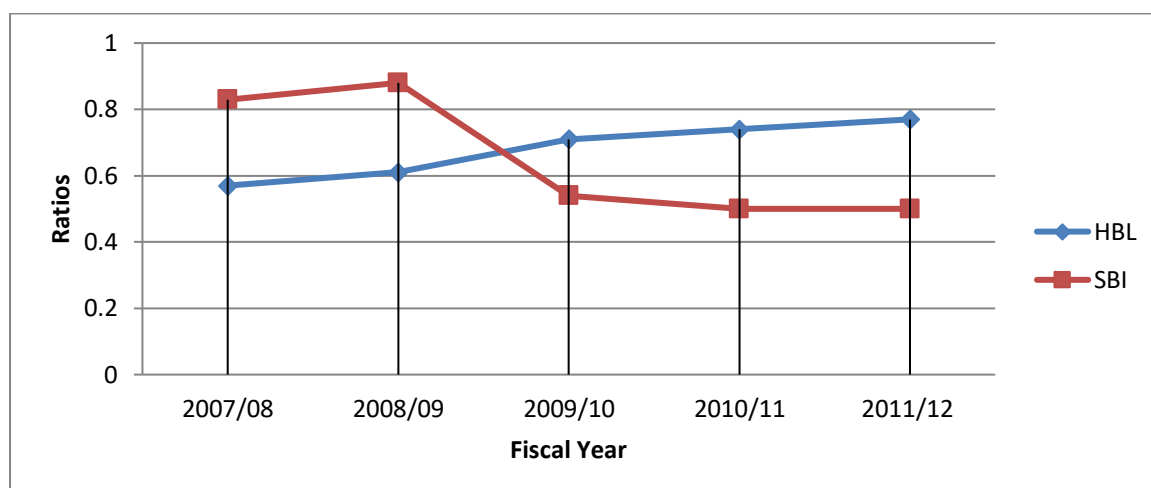


Table 4.7 and Figure 4.7 shows that the loan and advances to total deposit ratio of HBL is in increasing and SBI is in fluctuating trends. The ratio of SBI is more fluctuating. HBL has higher average ratio than SBL in study period ie $0.68 > 0.65$. So HBL has higher ratio than that of SBI. It reveals that the deposit of HBL is quickly converted in to loan and advances to earn income. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the HBL and SBI both hasn't meet the NRB requirement or it hasn't utilized its deposit to provide loan. The mean, S.D. and C.V of HBL has 0.68, 0.09 and 0.13. So as SBI has 0.65, 0.19 and 0.29.

B) Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of sample banks are calculated and presentation in table 4.8.

Table: 4.8

Total Investment to Total Deposit

Banks \ F/Y	HBL	SBI
2007/08	0.20	0.19
2008/09	0.23	0.20
2009/10	0.11	0.10
2010/11	0.09	0.11
2011/12	0.12	0.11
Mean	0.15	0.14
S.D	0.06	0.05
C.V	0.40	0.35

Source: Appendix 8

Figure: 4.8

Total Investment to Total Deposit

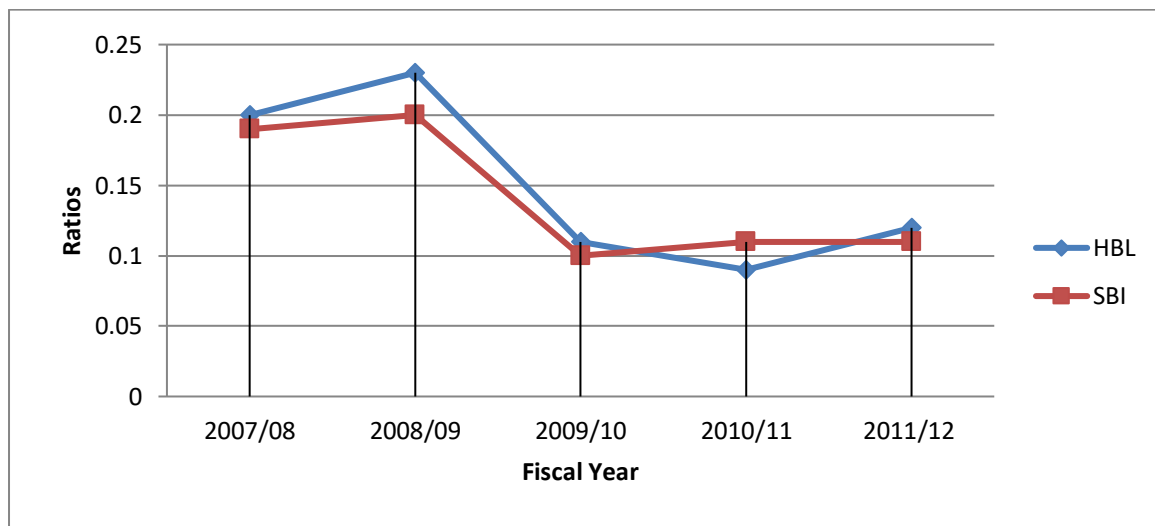


Table 4.8 and Figure 4.8 show that total investment to total deposit ratio of HBL and SBI. These banks have decreasing and fluctuating trend of total investment to total deposit ratio. Higher ratio of HBL is 23 percent in fiscal year 2008/09 and lowest ratio is 9 percent in fiscal year 2010/11 and in the same way the highest ratio of SBI is 20% in 2008/09 and lower is 11% in 2010/11 and 2011/12 . Investment volume of SBI is lower than HBL.

The mean, SD and CV of HBL is 0.15, 0.06 and 0.40 and SBI is 0.14, 0.05 and 0.35 respectively.

C) Loan and Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The table 4.9 shows loan and advances to total assets of sample banks as follows.

Table: 4.9

Loan and Advances to Total Assets

Banks	HBL	SBI
F/Y		
2007/08	0.51	0.68
2008/09	0.54	0.70
2009/10	0.63	0.50
2010/11	0.66	0.46
2011/12	0.68	0.46
Mean	0.60	0.56
S.D	0.074	0.1207
C.V	0.1233	0.2148

Source: Appendix 8

Figure: 4.9

Loan and Advances to Total Assets

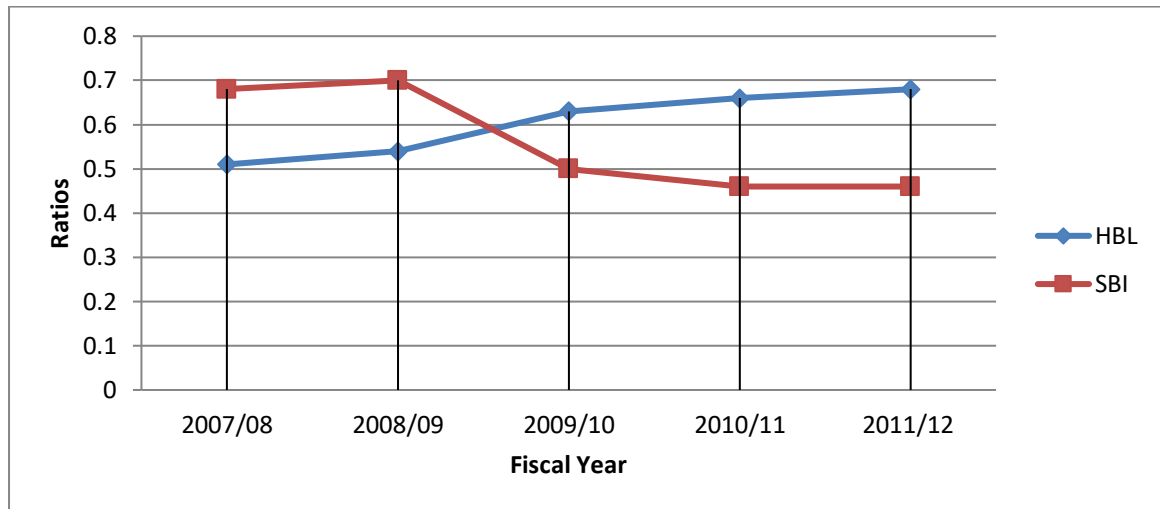


Table 4.9 and figure 4.9 shows the loan and advances to total assets ratio of sample banks during the study period. Loan and advances to total assets of HBL, is increasing and SBI is in fluctuating trend. While observing the ratios of HBL are better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year. The mean of HBL, and SBI is 0.60%, and 0.56% respectively. So HBL has higher ratio than SBI. It reveals that in total assets, HBL has high proportion of loan and advances. HBL has utilized its total assets more efficiently in the form of loan and advances. The higher C.V. of SBI states that it has less uniformity in these ratios throughout the study period. S.D. and C.V. of SBI has high than the HBL.

D) Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan and advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of

government securities in profit maximization and risk minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

Table: 4.10

Investment on Government Securities to Total Assets

Banks F/Y	HBL	SBI
2007/08	0.18	0.16
2008/09	0.20	0.16
2009/10	0.10	0.10
2010/11	0.08	0.10
2011/12	0.10	0.10
Mean	0.13	0.12
S.D	0.05	0.034
C.V	0.4047	0.2736

Source: Appendix 9

Table: 4.10

Investment on Government Securities to Total Assets

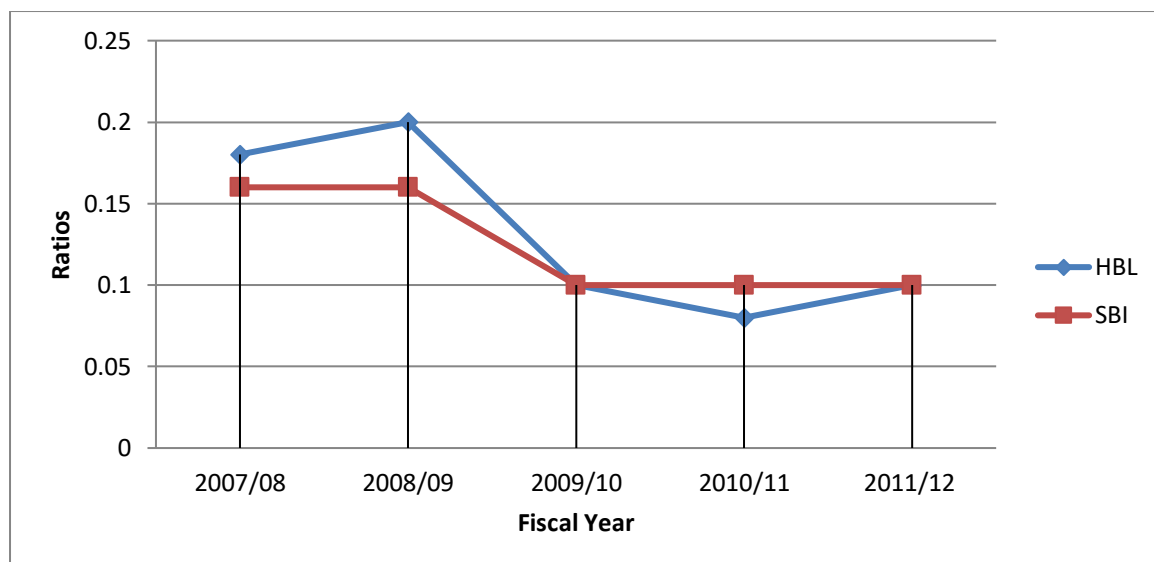


Table 4.10 and figure 4.10 shows that the investment on government treasury bills to Total assets of HBL and SBI are in fluctuating trend. The highest ratio of HBL and SBI are 20% in 2008/09 and 16% in 2007/08 and 2008/09 respectively. The lowest ratio HBL and SBI are 8% in 2010/11 and 10% respectively.

The mean ratio of HBL and SBI are 13% and 12% respectively. The mean of HBL is higher than SBI. It means HBL has invested more money in risk free assets than that of SBI. In another words SBI has emphasizes on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, SBI should divert its investment in govt. securities.

4.4 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. Profitability ratios are the best indicators of overall

efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of HBL and SBI.

A) Return on Loan and advances

Every financial institution tries to mobilize their deposits on loan and advances properly. So this ratio helps to measure the earning capacity selected banks. Returns on loan and advances ratio of selected banks are presented as follows

Table: 4.11

Return on Loan and advances

Banks	HBL	SBI
F/Y		
2007/08	0.029	0.027
2008/09	0.033	0.020
2009/10	0.030	0.021
2010/11	0.018	0.022
2011/12	0.028	0.022
Mean	0.028	0.022
S.D	0.006	0.003
C.V	0.2009	0.1156

Source: & Appendix 9

Table: 4.11

Return on Loan and advances

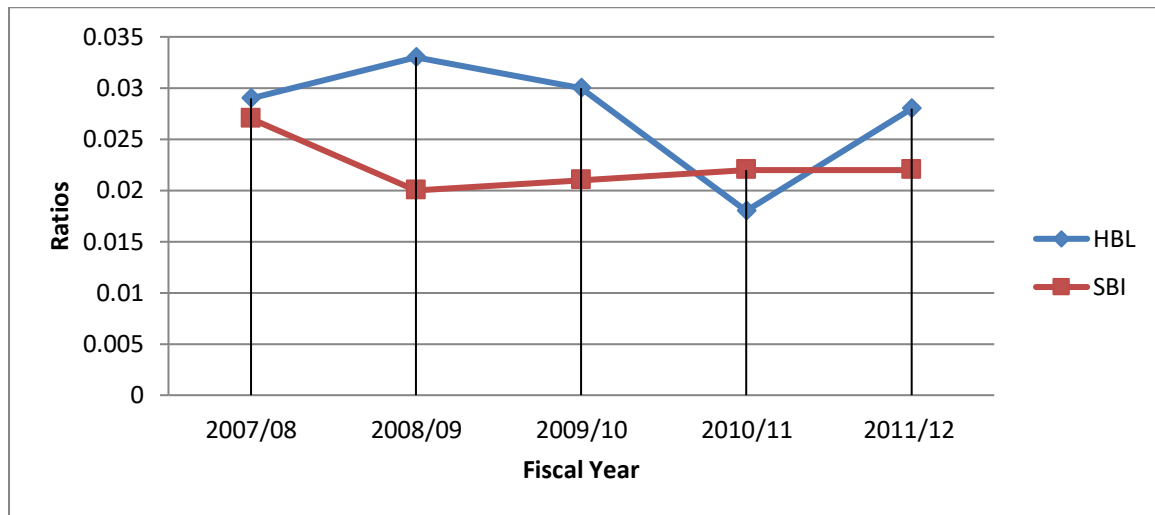


Table 4.11 and figure 4.11 shows that return on loan and advances ratio of HBL and SBI is in fluctuating trend. The highest ratio of HBL is 3.3% in the year 2008/09 and lowest ratio is 1.8% in year 2010/11. The mean ratio is 2.8%. Whereas highest ratio of SBI is 2.7% in year 2007/08 and lower ratio is 2% in fiscal year 2008/09. The mean ratio is 2.2%. These both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances.

From the table we notice that HBL has higher ratio of average in the study period. It can be concluded that SBI have utilized the loan and advance for the profit generation in same earning capacity than SBI. However both seem to have poor performance in order to have returns from loan and advances because of heavy less than five percents of return on loan and advances as five percent is benchmarking ratio in this case.

B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table: 4.12

Return on Total Assets Ratio

Banks F/Y	HBL	SBI
2007/08	0.015	0.02
2008/09	0.018	0.01
2009/10	0.019	0.01
2010/11	0.012	0.01
2011/12	0.019	0.01
Mean	0.016	0.01
S.D	0.003	0.004
C.V	0.1903	0.2841

Source: Appendix 10

Figure: 4.12

Return on Total Assets Ratio

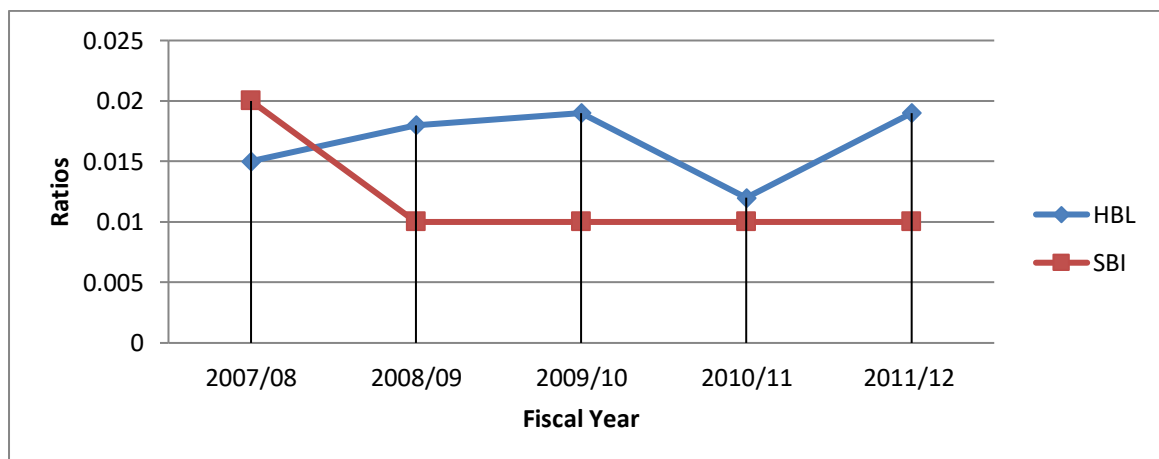


Table 4.12 and figure 4.12 shows the Return on Total Assets of HBL and SBI. This table states the net profit to total assets of selected banks during the study period. HBL has constantly increasing trend of return on its total assets except 2010/11 however, SBI seems same in every year i.e 0.02 except 2007/08. Where

as S.D. and C.V of HBL is 0.003 and 0.1903 respectively, SBI has 0.004 and 0.2441 relatively.

C) Total interest Earned to Total Operating Income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from fiscal year 2007/08 to 2011/12 are presented to analyze in the following table. The major sources of income for the bank are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

Tabl: 4.13

Total interest Earned to Total Operating Income Ratio

Banks \ F/Y	HBL	SBI
2007/08	1.27	1.56
2008/09	1.23	1.52
2009/10	1.18	1.77
2010/11	1.46	2.05
2011/12	1.67	2.18
Mean	1.36	1.82
S.D	0.20	0.294

C.V	0.1490	0.1622
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Source: Appendix 11

Figure: 4.13

Total interest Earned to Total Operating Income Ratio

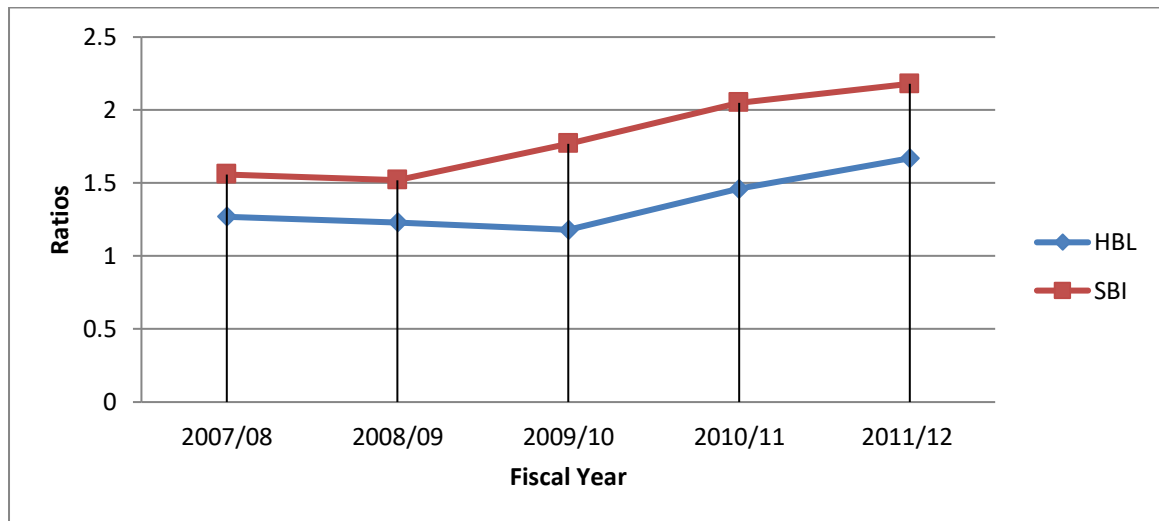


Table 4.13 and Figure 4.13 show Interest Earned to Operating Income Ratio of HBL and SBI. SBI has increasing ratio of study period except 2008/09 and HBL in fluctuating trend. SBI has greater share of total interest earn in its total operating income in each year. The mean ratio of HBL and SBI is 1.36 times and 1.82 times respectively. SBI and HBL both has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity). Thus, from short term view, HBL and SBI is in good condition but from long term view it is not so good condition. In overall and has managed sound interest earned to operating income ratio.

The S.D. and C.V of HBL is 20 and 14.90, similarly SBI has 29.4 and 16.22 times respectively.

D) Total Interest Paid to Total Assets Ratio

Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets.

Table: 4.14

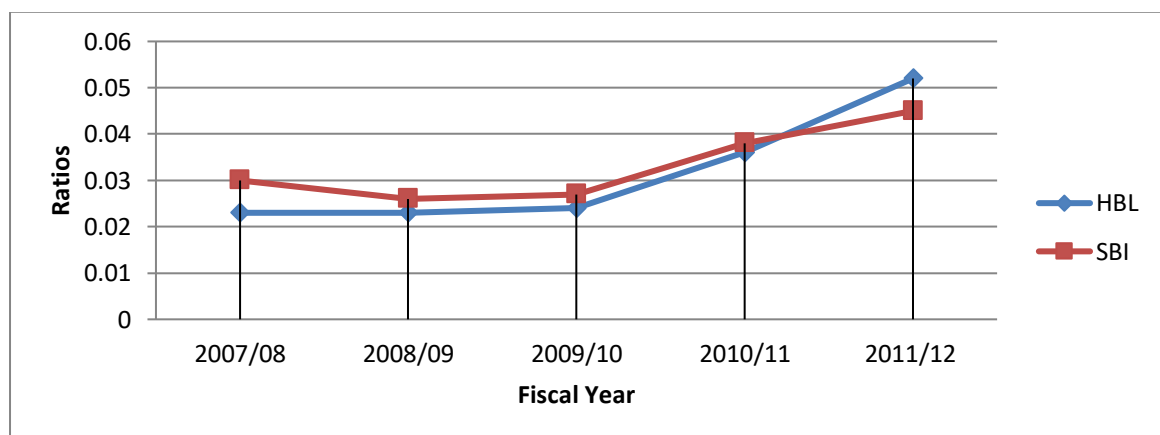
Total Interest Paid to Total Assets Ratio

Banks F/Y	HBL	SBI
2007/08	0.023	0.030
2008/09	0.023	0.026
2009/10	0.024	0.027
2010/11	0.036	0.038
2011/12	0.052	0.045
Mean	0.031	0.033
S.D	0.013	0.0081
C.V	0.4018	0.2440

Source: Appendix 12

Figure: 4.14

Total Interest Paid to Total Assets Ratio



Due to the little bit higher ratio in each year of SBI, it seems less conscious about borrowing cheaper fund. SBI shows the fluctuating trend of the interest paid to total asset ratio, its average ratio is 3.3% whereas HBL shows increasing trend and it has maintained average ratio of 3.1%. In comparison, SBI seems ineffective in getting cheaper fund from the mean point of view. The S.D. and C.V of HBL is 1.3% and 40.18%, likewise SBI is 0.81% and 24.40% respectively.

4.5 Activity Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization cannot achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the HBL and SBI.

A) Liquidity Risk Ratio

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

Table: 4.15

Liquidity Risk Ratio

Banks \ F/Y	HBL	SBI
2007/08	0.06	0.10
2008/09	0.05	0.10
2009/10	0.09	0.07
2010/11	0.10	0.10
2011/12	0.07	0.12
Mean	0.07	0.10
S.D	0.02	0.02
C.V	0.31	0.18

Source: Appendix 12

Figure: 4.15

Liquidity Risk Ratio

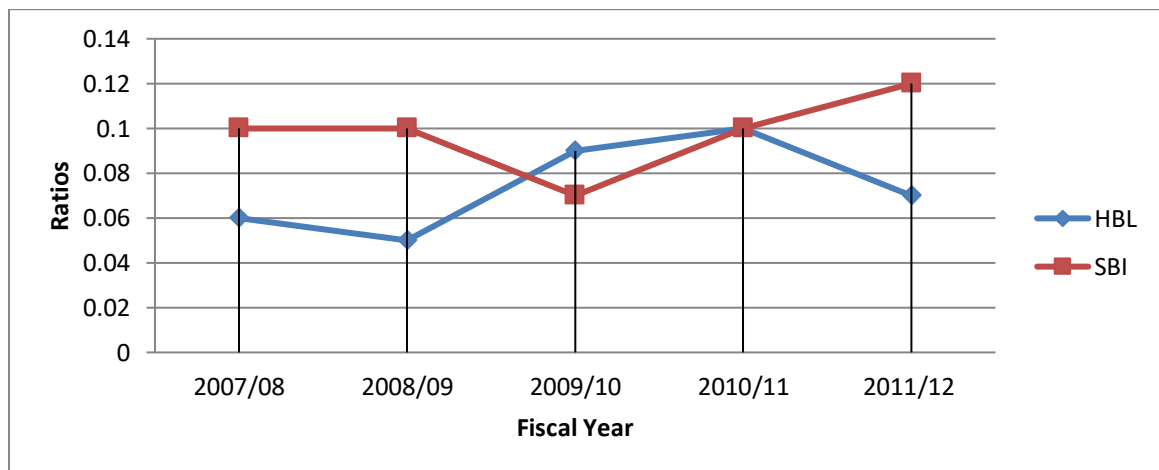


Table 4.15 and Figure 4.15 shows liquidity risk ratio of the selected banks. Ratio of HBL and SBI is in fluctuating trend. The higher average ratio of them is 0.10 of SBI. likewise HBL get 7% average mean. The S.D and C.V of HBL is 2% and 31%, and SBI is 2% and 18% .

The average mean ratio of SBI is greater than that of HBL. It signifies that SBI has sound liquid fund to make immediate payment to the depositors.

B) Credit Risk Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. Actually credit risk ratio shows the proportion of non-performing assets in total loan and advances of a bank.

Table: 4.16

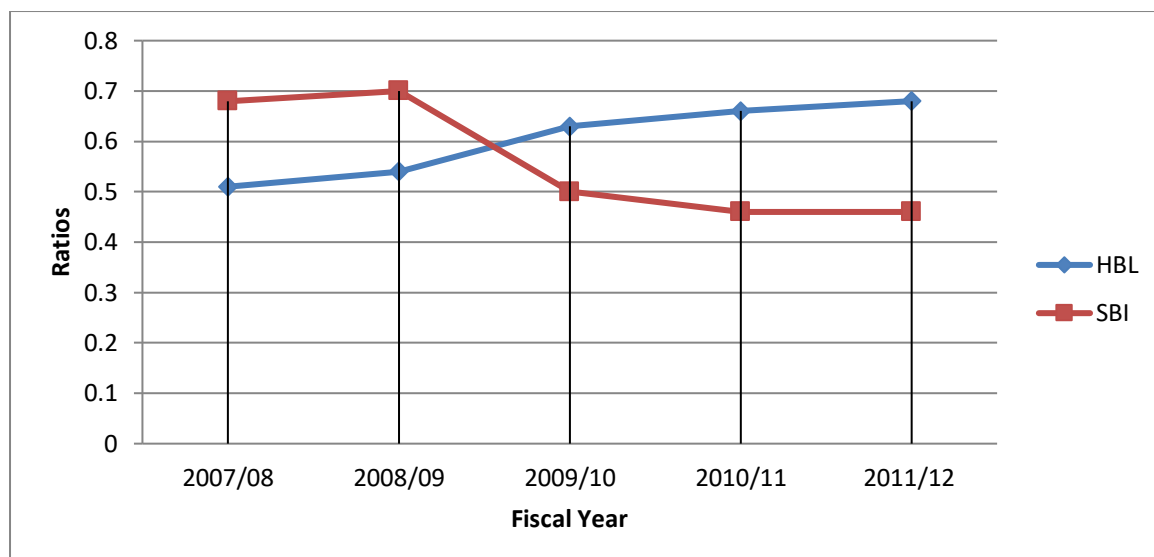
Credit risk ratio (%)

Banks F/Y	HBL	SBI
2007/08	0.51	0.68
2008/09	0.54	0.70
2009/10	0.63	0.50
2010/11	0.66	0.46
2011/12	0.68	0.46
Total	3.01	2.81
Mean	0.60	0.56
S.D	0.074	0.1207
C.V	0.1233	0.2148

Source: Appendix 12

Table: 4.16

Credit risk ratio



The table 4.16 and figure 4.16 shows that the total mean, standard deviation & coefficient of variation of credit risk ratio of sample commercial banks.

The table shows that the credit risk ratios of HBL is in increasing trend and SBI is in fluctuating trend. The higher ratio of HBL is 68% and lower is 51% whereas, the higher ratio of SBI is 70% and lower is 46%.

4.6 Relationship between different variables

Various relationships have been interpreted for the analysis purpose.

4.6.1. Relationship between deposits and loan & advances

Coefficient of correlation (r) between deposits and loans and advances measures the degree of relationship between these two variables. Higher the deposits of the banks higher will be the capacity for giving loans & advances. The purpose of correlation analysis between deposit and loan and advances is to find out whether deposit is significantly used as loan and advances. In this analysis deposit is independent variables (x) and loan & advances are dependent variables (y).

Table: 4.17

Relationship between deposit and loan & advances

Evaluation criteria	R	r ²
HBL	0.993	0.986
SBI	0.981	0.9623

Source: Appendix 13

The table 4.17 shows relationship of r & r² between deposit and loan and advances of HBL and SBI for the period of 2007/08 to 2011/12.

It is found that the co-efficient of correlation (r) between deposit and loan and advances of HBL is 0.993 which is slightly higher than that of SBI i.e. 0.981. However co- efficient of determination i.e. r² it indicates that in the case of HBL 0.986 and in case of SBI 0.9623 which is slightly lower than that of HBL. The value of coefficient of determination (r²) of HBL is higher which means 98.6% of loan & advances is dependent upon deposit & only 1.4% loan & advances is dependent upon other variables. However in the case of SBI, coefficient of determination (r²) is lower than HBL which means 96.23% loan & advances is dependent upon deposit & only 3.77% loan & advances is dependent upon other variables.

4.6.2. Relationship between deposit and total investment

Investment is dependent upon saving i.e. deposit. Longer the duration of deposit, higher will be the bank's ability to acquire long term assets. In other words, bank can't invest more on long term assets if duration of deposit is short. In this sense, it can be said that investment is the function of deposit. Theoretically it is assumed that long term asset yield higher return. It means longer the duration of deposit, higher would be the profitability of the bank. The purpose of calculating this analysis is to find out whether deposit is significantly used as investment or not. In this analysis deposit is independent variable (x) and total investment is independent variable (y).

Table: 4.18

Relationship between deposit and total investment

Evaluation criteria	R	r ²
HBL	-0.6497	0.4221
SBI	0.9377	0.8792

Source: Appendix 13

The table 4.18 shows that, the value of r and r² between total deposit and total investment of HBL and SBI Bank Limited for the study period 2007/08 to 2011/12 .

Form the above table, SBI has higher co-efficient of correlation than HBL bank. And the value of coefficient of determination (r²) is also higher of SBI which means 87.92% of investment decision is dependent upon deposit & only 12.08% of investment is dependent upon other variables. Moreover, the value of coefficient of determination (r²) of HBL is lower which means 42.12% of investment decision is dependent upon deposit and 57.88% of investment decision is dependent upon other variables.

6.4.3. Relationship between total assets and net profit

Coefficient of correlation between Total assets and net profit measures the degree of relationship between these two variables. The purpose of computing these analysis is to find out whether net profit is correlated with respect to total assets or not. In this analysis outside asset is independent variable (x) and net profit is independent variable (y).

Table: 4.19

Relationship between outside assets and net profit

Evaluation criteria	R	r ²
HBL	0.6579	0.4328
SBI	0.9794	0.9592

Source: Appendix 13

The table 4.19 shows the value of r and r² between total assets and net profit of HBL and SBI Bank Limited for the study period 2007/08 to 2011/12 .

From the table in case of HBL it is found that coefficient of correlation between total assets and net profit is 0.6579 which is higher than that of SBI which is 0.4328. Moreover, when we consider the value of coefficient of determination (r²) of HBL is 0.4328 and it means 43.28% of variation in net profit has been explained by outside assets. Similarly in case of SBI is 0.9592 and it means 95.92% of variation in net profit has been explained by outside assets.

4.6.2 Trend Analysis

Under this topic, analysis trend of loan & advances to total deposit ratio as well as trend of total investment to total deposit ratios of HBL and SBI bank are calculated and forecasted for next five years. The forecast is based on the following assumptions.

- The first assumption is that other things will remain unchanged.
- The bank will run in present potion.
- The economy will remain in the present stage.

- The forecast will be true only when the limitation of least square method is carried out.
- Nepal Rastra Bank will not change its guidelines to commercial banks.

(i) Trend analysis of loan and advances to total deposits ratio of HBL and SBI Bank Ltd.

Calculate the trend values of loan and advances to total deposits ratio of HBL and SBI for five years from 2007/08 to 2011/12 and forecast for next five years from 2012/13 to 2016/17. The following table no 4.20 shows the trend value of deposit for ten years for the sample banks.

The trend equation is:

$$Y = a + bx$$

Where,

Y = dependent variable, a = Y – intercept, b = slope of trend line,
X = independent variable

Table: 4.20

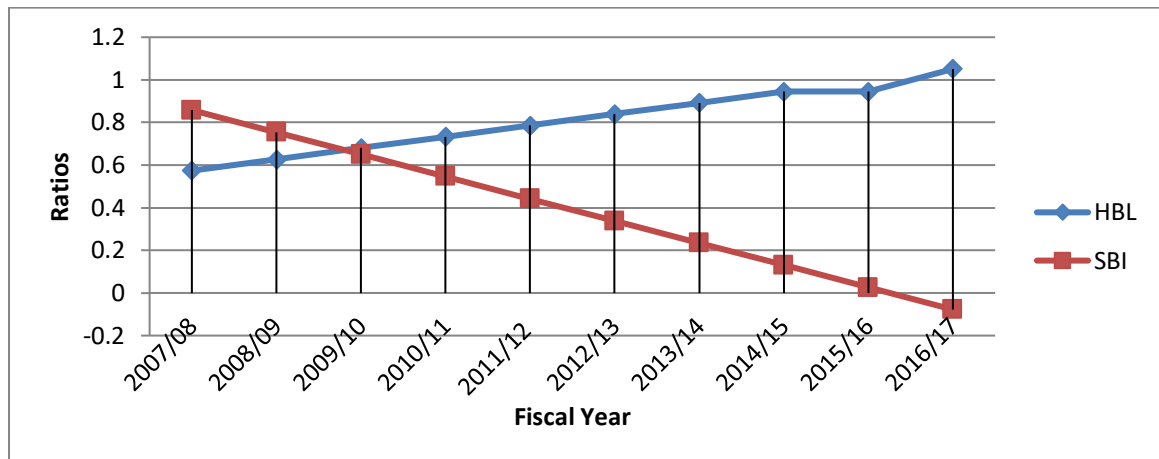
Trend analysis of loan and advances to total deposits ratio of HBL & SBI (%)

Banks F/Y	HBL	SBI
2007/08	0.574	0.858
2008/09	0.627	0.754
2009/10	0.68	0.65
2010/11	0.733	0.546
2011/12	0.786	0.442
2012/13	0.839	0.338
2013/14	0.892	0.234
2014/15	0.945	0.13
2015/16	0.945	0.026
2016/17	1.051	-0.078

Source: Appendix 13

Figure: 4.20

Trend analysis of loan and advances to total deposits ratio of HBL & SBI



The Table 4.20 and Figure 4.20 shows that the ratio of loan & advances to total deposits of HBL is in increasing trend and SBI is in decreasing trend. If our assumption are applied the ratio of loan & advances to total deposits of HBL is greater than SBI in every forecasting year. The highest ratio of HBL and SBI is 1.051 in 2016/17 and 0.858 in 2007/08 and lowest are 0.574 in 2007/08 and -0.078 in 2016/17 respectively. It indicates that HBL have increasing the loan and advances to total deposit ratio and SBI is in decreasing trend. If our assumption are applied the ratio of loan & advances to total deposits of SBI in 2016/17 will be in negative value. If other things remaining the same it shows that the value of ratio decreasing by negatively. The negative trend value means the banks ratio is less than par value.

(ii) Trend analysis of total investment to total deposit ratio of HBL and SBI Bank Ltd.

Calculate the trend values of total investment to total deposits ratio of HBL and SBI for five years from 2007/08 to 2011/12 and forecast for next five years from 2012/13 to 2015/2016. The following table shows the trend value of total investments to total deposits ratio of HBL and SBI bank.

Table: 4.21

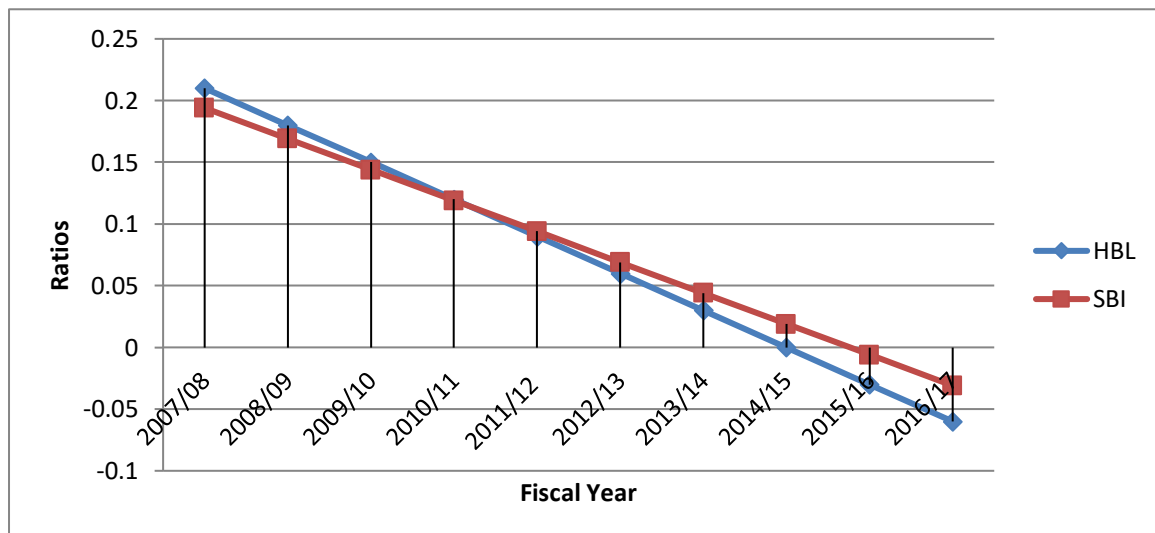
Trend analysis of total investment to total deposit ratio of Sample Bank (%)

Banks \ F/Y	HBL	SBI
2007/08	0.21	0.194
2008/09	0.18	0.169
2009/10	0.15	0.144
2010/11	0.12	0.119
2011/12	0.09	0.094
2012/13	0.06	0.069
2013/14	0.03	0.044
2014/15	0	0.019
2015/16	-0.03	-0.006
2016/17	-0.06	-0.031

Source: Appendix 14

Figure: 4.21

Trend analysis of total investment to total deposit ratio of Sample Bank



From the table 4.21 and Figure 4.21 shows that the ratio of total investment to total deposit ratio of HBL and SBI. Both sample banks are in decreasing trend and it will be negative value at end of the study period i.e 2016/17. If other things remaining the same it shows that the value of ratio decreasing by negatively. The negative trend value means the banks ratio is less than par value. If our assumption is applied the ratio of total investment to total deposit of HBL & SBI in 2016/17 will be -0.06% and 0.031% respectively.

From the analysis it can be concluded that SBI decreasing trend ratio has less decreaseing ratio than HBL. Above analysis only mention when it meet the above assumption and if other things remaining same but in real life it is different.

4.7 Major Findings of the Study

Liquidity ratio

- i. The mean current ratio of SBI is lower than that HBL and the variability of ratio of HBL is more consistence than SBI in comparison.
- ii. The mean ratio of cash and bank balance to total deposit of SBI is higher than that of HBL ,SBI cash and bank balance to total deposit ratio is high consistent than that of HBL. It states that the liquidity position of SBI is better than HBL.
- iii. The mean cash and bank balance to current assets ratio of SBI is higher than HBL. It exhibits the liquidity position of SBI is better in this regard.
- iv. The cash and bank balance to current assets ratios of SBI is more stable and consistent than that of HBL.
- v. The mean ratio of investment on government securities to current assets of SBI has maintained lower than HBL. Moreover, HBL seems to have more variable or less consistent than that of SBI.
- vi. The mean ratio of loan and advance to current assets ratio of SBI is equal to the loan and advance to current assets ratio of HBL.

Asset management ratio

- i. The main ratio of loan and advance to total deposit of HBL is higher than that of SBI. The variability of the loan and advance to total deposit ratio of SBI seems to be less stable and consistent than that of HBL.
- ii. The mean ratio of total investment to total deposit of SBI is slightly lower than that of HBL. The variability of the total investment to total deposit ratio of SBI is less consistent than that of HBL.
- iii. The mean ratio of total investment on government securities to total assets of SBI is lower than that of HBL. The variability of the total investment on government securities to total asset ratio of HBL is less consistent than that of SBI.
- iv. The mean ratio of loan and advance to total assets of HBL is greater than that of SBI. The variability of loan and advance to total assets ratio of SBI is less consistent than that of HBL.

Profitability ratios

- i. The mean ratio of return on loan and advances of SBI is lower than that of HBL. The return on loan and advance ratio of HBL is less consistent than that of SBI. However both the banks show the normal earning capacity in loan and advances.
- ii. The mean ratio of total assets of HBL is greater than that of SBI. The total assets ratio of HBL is less consistent than that of SBI.
- iii. The mean ratio of total interest earned to total operating income ratio of HBL is less than that of SBI. This shows the ratio of HBL is less consistent than that of SBI.
- iv. The mean ratio of total interest paid to total assets ratio of HBL is lower than that of SBI. The total interest paid to total assets ratio of HBL is less consistent than that of SBI.

Risk ratio

This risk ratio of HBL and SBI shows that:

- i. The mean liquidity risk ratio of SBI is greater than that of HBL. The liquidity risk ratio of SBI is less consistent than that of HBL.
- ii. The mean credit risk ratio of HBL is higher than that of SBI. The credit risk ratio of HBL is less consistent than that of SBI.

Relationship between deposits and loan & advance, total investment, net profit.

The relationship based on the Coefficient of correlation analysis between different variables of HBL and SBI reveals that:

- i. It is found that the co-efficient of correlation (r) between deposit and loan and advances of HBL is slightly higher than that of SBI. However co- efficient of determination i.e. r^2 indicates that SBI has slightly lower than that of HBL. This indicates that HBL is less dependent for deposit upon other variables than that of SBI.
- ii. Similarly, the coefficient of correlation between deposit and total investment of SBI is higher than that of HBL. Also co- efficient of determination i.e. r^2 of SBI is higher than that of HBL. This indicates that less decision for investment is dependent upon deposit for SBI than that of HBL.
- iii. The co-efficient of correlation between total assets and net profit of SBI is higher than of HBL. Also co-efficient of determination i.e. r^2 of SBI is higher than of HBL. This indicates that SBI has higher variation of net profit explained by outside assets.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

In the last chapter of this study is summary, conclusion and recommendation have discussed and explored the facts and matters required for various parts of the study. Through the analytical chapter by using some important financial as well as statistical tools, makes a comparative analysis of various aspects of the investment of concern commercial banks.

Having completed the basic analysis required for the study, the researcher must point out the mistakes and error and also correct them by giving suitable suggestions for further improvement. Therefore, this summarized and recommended tasks of the researcher of the study would be meaningful to the top management of the bank to initiate the action and achieve the desired result.

5.1 Summary

The economic development of a country depends upon the development of commerce and industry. And, there is no any doubt; banking promotes the development of commerce because banking itself is the part of commerce. The process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role for rapid economic development.

The economic growth was very slow in earlier year; it has caught its full selling with the restoration democracy in the country. At present, overall economic growth rate still decline year by year. Reasons behind this decline are insecure situation faced by industry, decrease in the tourist arrival, drop in the production and export of carpet, garment and pashmina industry and political situation. The evolution of the organized financial system in Nepal has more recent history than in other countries of the world. In Nepalese context, the history of banking is not more than six decade. After the announcement of liberal and free market economic

based policy Nepalese banks and financial sectors having greater network and access to national and international markets. Commercial banks plays a vital role which deals with other people's money and stimulate saving by mobilized idle resources to those sectors where have investment opportunities. Modern bank provides various services to their customer in view of facilitating their economic and social life.

The objective of the commercial banks is always to earn more profit by investing or granting loan and advances into profitable, secured and marketable sector. But commercial bank should be careful while performing the credit creation function; the banks should never invest its funds in those securities, which are too many fluctuations. And commercial banks must follow the rules and regulations as well as different directions issued by central banks and ministry of finance while mobilization the funds or the commercial banks should invest its funds only those securities, which are legal.

There has been number of commercial bank established, the research has taken into consideration. Himalayan Bank is a joint venture with Habib Bank of Pakistan and started its operation in 2049 B.S. This is the first joint venture bank managed by Nepali chief executive. It does not include government ownership. It is established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce for providing the banking services to the people and country. It holds of a vision to become a leading bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns the stakeholders of the bank. It provides various services and facilities. Similarly, Nepal SBI Bank is a joint venture bank with State Bank of India established in April 1993. The bank is managed in accordance with the joint venture and technical service agreement of State Bank of India & Nepalese promoters. The main objective of this bank is to carry out modern banking business in the country. The bank is providing various services to their customers like as consortium finance, working capital, long term loan, demand loan, hire purchase etc.

In the study, the word investment covers a wide range of activities i.e. the investment of income, savings or other collected fund. If there is no savings, there is no existence of investment therefore, savings and investment are interrelated. Investment policy is a one facet of the overall spectrum of policies that guide banks investment operations and it ensures efficient allocation of funds to achieve the well being economic development of the nation. A sound and viable investment policy attracts both borrowers and lenders, which help to increase the volumes and quality of deposits, loan and investment. Therefore, the investment policy should be carefully analyzed. Some sources of funds for the investment of the bank are capital, general reserves, accumulated profit, deposits and external & internal borrowings. Similarly, some important banking terms, which are frequently used in this study, are loan and advances, investment on government securities, shares and debentures, deposits and other use of funds.

In this study, for the analysis and interpretation of the data different financial & statistical tools are used. In the financial tools liquidity ratios, assets management ratios, profitability ratios and risk ratios have been used. Where, as in statistical tools mean, standard deviation, coefficient of variation, trend analysis, coefficient of correlation and test of hypothesis have been used. Only the secondary data have been used for the analysis in this research. The data are obtained from annual reports of concerned banks, likewise, the financial statement of five years i.e. 2007/08 to 2011/12 was selected for the purpose evaluation.

5.2 Conclusions

Under This research study, different financial and statistical tools are used to measure the Investment policy of the selected banks. It is found that all sample banks have strong financial performance but comparatively SBI Bank has better position than HBL. The trend value of deposits to loan and advance ratio of HBL is in increasing trend and of SBI is in decreasing trend. It is forecasted that the both banks will have decreasing trend of investment to deposit ratio. The total investment to total deposit ratio of both sample banks are forecasted negatively, it

means that the banks ratio is less than par value or it doesn't maintain the standard of ratio.

Investment policy plays a key role on the development of countries utmost investment. The political insanity, government rules, tax policy treaty with neighbor country, social and economic condition of the country affect investment policy of bank. To keep up the stability with the foreign policy results the improvement of investment policy.

Designing good investment policy helps to the improvement of investment policy in the country. As political influence, intervention economic scenario and social, economic scenario of the country is dramatically problem for the detection of designing investment policy of bank.

Government policy affects the investment policy of the company, bank and institution. Government intervention in investment policy is custom tariff initiated by the government policy, VAT refund policy and tax holding policy including duty taxes i.e. export and import directly influences investment policy.

Analysis of investment to avoid the risk, risk related investment influence the financial and economic condition of investment. Technical and marketing analyses too reflect the risk measurement.

As the investor, the adequate knowledge of investment policy is required. Major problem for applying the investment policies are integrator of the consumer, changing policy of the country, industrial policy and neighbor country's policy.

5.3 Recommendations

On the basis of analysis and findings of two banks in previous section Investment Bank and SBI Bank are recommended to go through following suggestion, which may overcome the weakness and less effectiveness of the existing fund mobilization and investment policy.

- A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community; however, external as well as internal factors affect the liquidity position of banks. As HBL and SBI both has maintained the all kinds of Liquidity Ratio. SBI have to increase the investment in government securities.
- To get success in competitive banking environment, depositor's money must be utilized as loan and advances. The largest item of the bank in the asset side is loan and advances. If it is neglected, then it could be the main cause of liquidity crisis in the bank. SBI's loan & advances to total deposit ratio is lower than HBL. To overcome this situation SBI is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit and total working fund in loan & advances.
- Besides giving priority of investing on government securities, SBI is recommended to invest its fund in purchase of shares and debentures of other financial and non-financial companies. Government securities such as treasury bills gives very lowest interest rate rather than other's company's securities. This also helps to maintain the sound portfolio of the banks.
- Profitability is the main indicator of the financial performance of cash and every business organization. In this study, profitability ratio is good from of both sample banks.

- Diversification of investment is highly suggested to the selected bank as they have given priority to invest in government securities only. Both sample banks seem risk avoider as they have invested highest amount in risk free securities. Higher the risk higher will be the profit. Hence, HBL, and SBI are recommended to diversify their investment in NRB bond, govt. non financial institution, other non-financial institution etc.
- Liquidity and profitability are like two wheels of the same cart and both are very inter-related and have converse relation; one can be achieved only at the cost of the others. Highly liquid bank may have less profitability as it has to hold more assets in the form of cash. However, the bank has to maintain sufficient fund in the form of cash and liquid assets to meet various commitments like depositors claim, personnel expenses, interest payments, to exploit unforeseen opportunities etc. Since, HBL has held more liquidity its profitability ratios are also greater than SBI. So, SBI, is highly recommended to maintain reasonable liquidity so as to increase profitability of the bank.
- Similarly, recovery of loan is another important factor of investment policy. Although effort has been made for collection of repayment, but still there is some increment in sub-standard and doubtful loan. It should be controlled timely, if not sub-standard loan might be converted to doubtful loan and doubtful to bad loan. Both sample banks are suggested to implement a sound collection policy, which should ensure rapid identification of fake loans, immediate contact with borrower and continual follow up until a loan is recovered in full. The recovery of loan loss is the must be very careful in formulating credit collection policy, which should be associated with some legal procedure.
- The commercial banks have been established gradually after the Commercial Banks Act 2031 B.S. With the passage of time so many commercial banks, as a joint venture, have been established gradually because of the liberal and market friendly economic policy of government

of Nepal. But banks should provide some social response by expanding their operation in rural areas rather than urban areas. And banks can give response to poor and disadvantage groups. By establishing the branches in rural areas, minimum amount for opening accounts and interest rate should be reduced for creditors.

- In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients. They should treat every client equally. They should bring different schemes to focus the customers like, increase interest rate, bank credit policies, bank loan insurance policies, evening counters, social responsibilities etc.
- Majority of commercial banks have been found to be profit oriented ignoring their social responsibility, which is not a proper strategy to sustain in long run. So all the banks are suggested to render their serves even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the goodwill of the banks in future.
- The Economic Liberalization policy adopted by Nepal government has created an environment of strict competition even in the banking sectors. In the context, all the banks are suggested to formulate and implement some sound and attractive financial; and non- financial strategies to meet required level of profitability such as risk analysis diversification, social responsibility, bank credit policy, compensation policy etc.

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Websites:

www.nepalstock.com

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www.cbs.gov.np

www.investorwords.com

APPENDICES

Appendix: 1

Computation of Total Sample Banks Investment to Individual Investment Ratio of HBL & Nepal SBI Bank (Rs in Million)

Year	HBL		Nepal SBI Bank		Ratio of HBL	Ratio of SBI
	HBL Investment	Total Sample Banks Investment	SBI Investment	Total Sample Banks Investment		
2007/08	11822.98	14050.72	2227.74	14050.72	0.84	0.16
2008/09	13340.17	16102.99	2762.82	16102.99	0.83	0.17
2009/10	8710.69	11644.53	2933.84	11644.53	0.75	0.25
2010/11	8444.91	12165.50	3720.59	12165.50	0.69	0.31
2011/12	8769.93	34452.04	4682.11	34452.04	0.26	0.14

Appendix: 2

Computation of Current Ratio of HBL & Nepal SBI Bank (Rs in Million)

Year	HBL		Nepal SBI Bank		Current Ratio of HBL (CR = CA/CL)	Current Ratio of SBI (CR = CA/CL)
	Current Assets(CA)	Current Liabilities(CL)	Current Assets(CA)	Current Liabilities(CL)		
2007/08	27188.68	30776.64	13368.42	11722.52	0.88	1.14
2008/09	29265.49	32719.33	16741.14	13945.3	0.98	1.20
2009/10	33542.06	35710.22	20310.74	28276.59	0.94	0.72
2010/11	36665.36	38777.9	25044.38	35397.11	0.95	0.71
2011/12	41504.34	41478.58	31442.31	43008.92	1	0.73

Appendix: 3

Computation of Cash & bank balance to Total deposit Ratio of HBL & Nepal SBI Bank (Rs in Million)

Year	HBL		Nepal SBI Bank		Cash & bank balance to Total deposit Ratio of HBL =CBL/TD	Cash & bank balance to Total deposit Ratio of SBI=CBL/TD
	Total deposit	Cash and bank balance	Total deposit	Cash and bank balance		
2007/08	30048.41	1757.34	11445.28	1122.69	0.06	0.10
2008/09	31842.78	1448.14	13715.39	1342.96	0.05	0.10
2009/10	34682.3	3048.52	27957.22	1903.9	0.09	0.07
2010/11	37611.2	3866.49	34896.42	3441.26	0.10	0.10
2011/12	40920.62	2964.65	42415.44	4877.82	0.07	0.12

Appendix: 4

Computation of Cash & bank balance to Current Assets Ratio of HBL & Nepal SBI Bank (Rs in Million)

Year	HBL		Nepal SBI Bank		Cash & bank balance to Current Assets Ratio of HBL =CBL/CA	Cash & bank balance to Current Assets Ratio of SBI =CBL/CA
	Current Assets(CA)	Cash and bank balance	Current Assets(CA)	Cash and bank balance		
2007/08	27188.68	1757.34	13368.42	1122.69	0.06	0.08
2008/09	29265.49	1448.14	16741.14	1342.96	0.05	0.08
2009/10	33542.06	3048.52	20310.74	1903.9	0.09	0.09
2010/11	36665.36	3866.49	25044.38	3441.26	0.11	0.14
2011/12	41504.34	2964.65	31442.31	4877.82	0.07	0.16

Appendix: 5

Computation of Investment on Government Securites to Current Assets Ratio of HBL & Nepal SBI Bank (Rs in Million)

Year	HBL		Nepal SBI Bank		Investment on Government Securites to current Assets Ratio of HBL = IGS/CA	Investment on Government Securites to current Assets Ratio of SBI = IGS/CA
	Current Assets (CA)	Investment on Govement Securites	Current Assets (CA)	Investment on Govement Securites		
2007/08	27188.68	6079.37	13368.42	2227.74	0.22	0.17
2008/09	29265.49	7166.53	16741.14	2762.82	0.24	0.17
2009/10	33542.06	3907.34	20310.74	2933.84	0.12	0.14
2010/11	36665.36	3455.03	25044.38	3720.59	0.09	0.15
2011/12	41504.34	4725.58	31442.31	4682.11	0.11	0.15

Appendix: 6

Computation of Loan & Advance to Current Assets Ratio of HBL & Nepal SBI Bank (Rs in Million)

Year	HBL		Nepal SBI Bank		Loan & Advance to Current Assets Ratio of HBL = L&A/CA	Loan & Advance to Current Assets Ratio of SBI = L&A/CA
	Loan & Advance	Current Assets	Loan & Advance	Current Assets		
2007/08	16997.99	27188.68	9460.45	13368.42	0.63	0.71
2008/09	19497.52	29265.49	12113.69	16741.14	0.67	0.72
2009/10	24793.15	33542.06	15131.74	20310.74	0.74	0.75
2010/11	27980.62	36665.36	17480.54	25044.38	0.76	0.70
2011/12	31566.97	41504.34	21365.77	31442.31	0.76	0.68

Appendix: 7

Computation of Loan & Advance to Total deposit Ratio of HBL & Nepal SBI Bank (Rs in Million)

Year	HBL		Nepal SBI Bank		Loan & Advance to Total deposit Ratio of HBL = L&A/TD	Loan & Advance to Total deposit Ratio of SBI = L&A/TD
	Loan & Advance	Total deposit	Loan & Advance	Total deposit		
2007/08	16997.99	30048.41	9460.45	11445.28	0.57	0.83
2008/09	19497.52	31842.78	12113.69	13715.39	0.61	0.88
2009/10	24793.15	34682.3	15131.74	27957.22	0.71	0.54
2010/11	27980.62	37611.2	17480.54	34896.42	0.74	0.50
2011/12	31566.97	40920.62	21365.77	42415.44	0.77	0.50

Appendix: 8

Computation of Loan & Advance to Total Assets Ratio of HBL & Nepal SBI Bank (Rs in Million)

Year	HBL		Nepal SBI Bank		Loan & Advance to Total Assets Ratio of HBL = L&A/TA	Total Investment to Total deposit Ratio of SBI = L&A/TA
	Loan & Advance	Total Assets	Loan & Advance	Total Assets		
2007/08	16997.99	33519.14	9460.45	13901.2	0.51	0.68
2008/09	19497.52	36175.53	12113.69	17187.44	0.54	0.70
2009/10	24793.15	39330.13	15131.74	30166.43	0.63	0.50
2010/11	27980.62	42717.12	17480.54	38047.67	0.66	0.46
2011/12	31566.97	46736.2	21365.77	46088.23	0.68	0.46

Appendix: 9

**Computation of Return on Loan & Advance Ratio of HBL & Nepal SBI Bank
(Rs in Million)**

Year	HBL		Nepal SBI Bank		Return on Loan & Advance Ratio of HBL = NP/L&D	Return on Loan & Advance Ratio of SBI = NP/L&D
	Net profit	Loan & Advance	Net profit	Loan & Advance		
2007/08	491.86	16997.99	254.9	9460.45	0.029	0.027
2008/09	635.86	19497.52	247.77	12113.69	0.033	0.020
2009/10	752.83	24793.15	316.37	15131.74	0.030	0.021
2010/11	508.79	27980.62	391.74	17480.54	0.018	0.022
2011/12	893.11	31566.97	464.56	21365.77	0.028	0.022

Appendix: 10

**Computation of Return on Total Assets Ratio of HBL & Nepal SBI Bank
(Rs in Million)**

Year	HBL		Nepal SBI Bank		Return on Total Assets Ratio of HBL = NP/L&D	Return on Total Assets Ratio of SBI = NP/L&D
	Net profit	Total Assets	Net profit	Total Assets		
2007/08	491.86	33519.14	254.9	13901.2	0.015	0.02
2008/09	635.86	36175.53	247.77	17187.44	0.018	0.01
2009/10	752.83	39330.13	316.37	30166.43	0.019	0.01
2010/11	508.79	42717.12	391.74	38047.67	0.012	0.01
2011/12	893.11	46736.2	464.56	46088.23	0.019	0.01

Appendix: 11

**Computation of Total Interest Earned to Total Operating Income Ratio of
HBL & Nepal SBI Bank (Rs in Million)**

Year	HBL		Nepal SBI Bank		Total Interest Earned to Total Operating Income Ratio of HBL = TII/TOI	Total Interest Earned to Total Operating Income Ratio of SBI = TII/TOI
	Total Interest Income	Total Operating Income	Total Interest Income	Total Operating Income		
2007/08	1775.58	1393.36	831.11	533.51	1.27	1.56
2008/09	1963.64	1597.49	970.51	638.05	1.23	1.52
2009/10	2342.19	1988.04	1460.44	826.66	1.18	1.77
2010/11	3148.6	2157.95	2269.7	1106.82	1.46	2.05
2011/12	4326.14	2586.74	3104.23	1421.06	1.67	2.18

Appendix: 12

**Computation of Total Interest Paid to Total Assets Ratio of
HBL & Nepal SBI Bank (Rs in Million)**

Year	HBL		Nepal SBI Bank		Total Interest Paid to Total Assets Ratio of HBL = TIP/TA	Total Interest Paid to Total Assets Ratio of SBI = TIP/TA
	Total Interest paid	Total Assets	Total Interest Paid	Total Assets		
2007/08	767.41	33519.14	412.26	13901.2	0.023	0.030
2008/09	823.74	36175.53	454.91	17187.44	0.023	0.026
2009/10	934.77	39330.13	824.7	30166.43	0.024	0.027
2010/11	1553.53	42717.12	1443.69	38047.67	0.036	0.038
2011/12	2414.8	46736.2	2096.03	46088.23	0.052	0.045

Appendix: 13

Calculation for Mean value, Standard Deviation & Correlation between Total deposit and Loan & Advance of HBL (Rs in Million)

Year	Total deposit (X ₁)	Loan & Advance (X ₂)	x ₁ =X ₁ - \bar{X}_1	x ₂ =X ₂ - \bar{X}_2	x ₁ · x ₂	x ₁ ²	x ₂ ²
2007/08	30048.41	16997.99	-4972.65	-7169.26	35650235	24727268	51398289
2008/09	31842.78	19497.52	-3178.28	-4669.73	14841719	10101476	21806378
2009/10	34682.3	24793.15	-338.76	625.9	-212031.1	114759.7	391750.81
2010/11	37611.2	27980.62	2590.14	3813.37	9877154.5	6708815	14541791
2011/12			11953.5	110733.	13236573	14288711	12261908
	49696	380341	4	5	69	8.5	908
N ₁ = 5 N ₂ = 5	$\sum X_1 =$ 175105.3	$\sum X_2 =$ 120836.3			$\sum x_1 \cdot x_2 =$ 10381215 5	$\sum x_1^2 =$ 76457104	$\sum x_2^2 =$ 142894065

For Total Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{175105.3}{5} = 35021.06$$

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum (X_1 - \bar{x}_1)^2}{N_1}} = \sqrt{\frac{76457104}{5}} = 1748.80$$

For Loan & Advance,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{120836.3}{5} = 24167.25$$

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum (X_2 - \bar{x}_2)^2}{N_2}} = \sqrt{\frac{142894065}{5}} = 2390.77$$

Correlation between Total deposit and Loan & Advance of Nepal SBI Bank

$$\begin{aligned} (r_{12}) &= \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}} \\ &= \frac{103812155}{\sqrt{76457104 * 142894065}} = 0.993 \end{aligned}$$

As so on